FRANKLIN TEMPLETON INVESTMENTS

RISK CONSIDERATIONS

November 2017

This notice is provided to you, in compliance with the rules of the Financial Conduct Authority, as either a Retail or Professional Client, as such terms are used in those rules.

In accordance with the guidelines set out in your agreement with us for investment management or advisory services, we will invest in financial instruments on your behalf or advise you on making such investments.

All investments carry an element of risk. The risks inherent in your Portfolio will depend on the types of investment which are permitted for investment in your Portfolio's investment guidelines and the asset classes, regions and industrial sectors in which those investments are based.

This notice is intended to give you information on and a warning of some of these risks so that you are reasonably able to understand the nature and risks of the services and of the specific types of investment relevant to you. It does not purport to be a complete explanation and other risks may also be relevant from time to time. Please note that risk factors may occur simultaneously and/or may compound each other resulting in an unpredictable effect on the value of any investment. This notice cannot therefore disclose all the risks that might be relevant to you. **You may, at any time, request we provide you with a more detailed explanation of the risks relevant to you**.

Past performance is no guide to future performance, and the value of investments may go down as well as up. There can be no guarantee against loss resulting from an investment, nor can there be any assurance that strategies to hedge risk will be successful or that investment objective(s) will be attained. Neither the Manager, nor any of its worldwide affiliated entities, guarantee the performance or any future return of any portfolio.

Asset Allocation risk

Some investment strategies apply an actively managed asset allocation approach. Such strategies could experience losses if the Manager's judgment about markets, future volatility, interest rates, industries, sectors and regions or the attractiveness, relative values, liquidity, effectiveness or potential appreciation of particular investments made for a portfolio prove to be incorrect. The Manager's allocation of assets among different asset classes, underlying funds and direct investments may not prove beneficial in light of subsequent market events. There can be no guarantee that these techniques or the Manager's investment decisions will produce the desired results.

The Manager may use modelling systems to implement their investment strategies. There is no assurance that the modelling systems are complete or accurate, or representative of future market cycles, nor will they necessarily be beneficial even if they are accurate. The results generated by these models may perform differently than in the past, or as expected. They may negatively affect performance for various reasons. For example, human judgment plays a role in building, using, testing, and modifying the financial algorithms and formulas used in these models. Additionally, there is a possibility that the historical data may be imprecise or become stale due to new events or changing circumstances which the models may not promptly detect.

Market performance can be affected by non-quantitative factors (for example, market or trading system dysfunctions, investor fear or over-reaction or other emotional considerations) that are not easily integrated into the Manager's or risk models. There may also be technical issues with the construction and implementation of quantitative models (for example, software or other technology malfunctions, or programming inaccuracies).

Collateralised Debt Obligations risk

Some strategies may invest in particular types of asset-backed security known as Collateralised Debt Obligation (CDOs) or (if loans are the underlying asset) Collateralised Loan Obligations (CLOs). The risks of an investment in a CDO or CLO depend largely on the type of collateral held by the special purpose entity (SPE) and the tranche of the CDO or CLO in which the portfolio invests. In a typical CDO or CLO structure, there are multiple tranches with varying degrees of seniority, with the most senior tranche getting first access to the interest and principal payments from the pool of underlying assets, the next most senior getting second access, and so on down the line until the residual (or equity tranche) which has the last call on the interest and principal. The lower the priority of the tranche is, the greater the risk. Investment risk may also be affected by the performance of the collateral manager (the entity responsible for selecting and managing the pool of collateral securities held by the SPE trust), especially during a period of market volatility. Investment in CDOs or CLOs will not receive the same investor protection as an investment in registered securities. As a result of these factors, prices of CDO or CLO tranches can decline considerably.

In addition to the normal risks associated with debt securities and asset backed securities (e.g., interest rate risk, credit risk and default risk), CDOs and CLOs carry additional risks including, but not limited to: (i) the possibility that distributions from collateral securities will not be adequate to make interest or other payments; (ii) the quality of the collateral may decline in value or quality or go into default or be downgraded; (iii) tranches of a CDO or CLO may be subordinate to other classes; and (iv) the complex structure of the security may not be fully understood at the time of investment and may produce disputes with the issuer, difficulty in valuing the security or unexpected investment results.

Commodities risk

Exposure to investments in commodities related instruments presents unique risks. Investing in commodities related instruments, including trading in commodities linked notes, commodities indices and financial derivative instruments related to commodities, is speculative and can be extremely volatile. Market prices of commodities may fluctuate rapidly based on numerous factors, including: changes in supply and demand relationships (whether actual, perceived, anticipated, unanticipated or unrealised); weather; agriculture; trade; domestic and foreign political and economic events and policies; diseases; pestilence; technological developments; and monetary and other governmental policies, action and inaction. Supply may be held by large holders such as governmental bodies and central banks, and supply constraints may be set by agreement between producers. The current or "spot" prices of physical commodities may also affect, in a volatile and inconsistent manner, the prices of futures contracts in respect of the relevant commodity. Certain commodities are used primarily in one industry, and fluctuations in levels of activity in (or the availability of alternative resources to) one industry may have a disproportionate effect on global demand for a particular commodity. Moreover, recent growth in industrial production and gross domestic product has made some developing countries oversized users of commodities and has increased the extent to which certain commodities prices are influenced by those markets.

Securities issued by issuers principally concerned with commodities production or consumption are likely to be strongly affected by the price of the relevant commodities. These prices may fluctuate substantially over short periods of time, so the securities may be more volatile than other types of investments. Investors should note that certain commodity production operations have varying expected life spans. Securities of companies that are, for example, extracting resources from sites with a short expected life span may experience greater price volatility than those that have a long expected life span.

In times of significant inflation or great economic uncertainty, gold and other precious metals have historically maintained their value as hard assets, often outperforming traditional investments such as stocks and bonds. However, in times of stable economic growth, traditional equity and debt investments could offer greater appreciation potential and the value of gold and other precious metals may be adversely affected, which could in turn affect returns.

Convertible and Hybrid Securities risk

A convertible security is generally a debt obligation, preferred stock or other security that pays interest or dividends and may be converted by the holder within a specified period of time into common stock at a specified conversion price. The value of convertible securities may rise and fall with the market value of the underlying stock or, like a debt security, vary with changes in interest rates and the credit quality of the issuer. A convertible security tends to perform more like a stock when the underlying stock price is high relative to the conversion price (because more of the security’s value resides in the option to convert) and more like a debt security when the underlying stock price is low relative to the conversion price (because the option to convert is less valuable). Because its value can be influenced by many different factors, a convertible security is not as sensitive to interest rate changes as a similar non-convertible debt security, and generally has less potential for gain or loss than the underlying stock.

Hybrid securities are those that, like convertible securities described above, combine both debt and equity characteristics. Hybrids may be issued by corporate entities (referred to as corporate hybrids) or by financial institutions (commonly referred as contingent convertible bonds or "CoCos"). Hybrid securities are subordinated instruments that generally fall in the capital structure between equity and other subordinated debt, i.e. such securities will be the most junior securities above equity. Such securities will generally have a long maturity and may even be perpetual in nature. Coupon payments may be discretionary and as such may be cancelled by the issuer at any point, for any reason, and for any length of time. The cancellation of coupon payments may not amount to an event of default. Hybrid securities are callable at pre-determined levels. It cannot be assumed that hybrid securities, including perpetual securities, will be called on the call date. The investor may not receive return of principal on a given call date or on any date.

Contingent convertible securities issued by financial institutions ("CoCos"), which became popular following the 2008-2009 financial crisis as a way of mitigating the impact of stressed market conditions, have certain additional characteristics not typical of corporate hybrids. For CoCos, conversion is tied to a pre-specified trigger event based on the capital structure of the financial institution and/or to when the regulator deems the bank to be no longer viable. The contingent convertible bond may convert to equity or, alternatively, may be purely loss absorbing and convert to nothing. Trigger levels may differ from one issue to the next and the risk of conversion will depend on the distance of the capital ratio to the trigger level and/or the point at which the regulator deems the issuer no longer viable (i.e. the bonds are "bail-in-able" at the "point of non-viability" or PONV), making it difficult for the Manager to anticipate the triggering events that would require the debt to convert into equity or be simply loss absorbing. It may also be difficult for the Manager to assess how the securities will behave upon conversion. Because conversion occurs after a specified event, conversion may occur when the share price of the underlying equity is less than when the bond was issued or purchased. Whereas traditional convertible securities are convertible at the option of the holder and the holder of such bonds will generally convert when the share price is higher than the strike price (i.e. when the issuer is doing well), CoCos tend to convert when the issuer is in crisis and needs additional equity or loss absorption in order to survive. As a result, there is greater potential for capital loss with CoCos compared to conventional convertible securities. The trigger could be activated through a material loss in capital as represented in the numerator or an increase in risk weighted assets (due to a shift to riskier assets) as measured in the denominator. Unlike for corporate hybrids, cancelled coupon payments do not generally accumulate and are instead written off. Holders of CoCos may see their coupons cancelled while the issuer continues to pay dividends on common equity, unlike the case of corporate hybrids which typically have so-called "dividend pusher/stopper clauses" which link the payment of hybrid coupons to equity dividends. CoCos may suffer from capital structure inversion risk, since investors in such securities may suffer loss of capital when equity holders do not in the event the pre-defined trigger is breached before the regulator deems the issuer non-viable (if the regulator declares non-viability before such a breach, the normal creditor hierarchy should apply). The value of CoCos may be subject to a sudden drop in value should the trigger level be reached. The portfolio may be required to accept cash or securities with a value less than its original investment or, in the event of instances where the contingent convertible bond is intended to be only loss absorbing, may lose its entire investment.

Counterparty risk

Counterparty risk is the risk to each party of a contract that the counterparty will fail to perform its contractual obligations and/or to respect its commitments under the term of such contract, whether due to insolvency, bankruptcy or other cause.

When over-the-counter (OTC) or other bilateral contracts are entered into (inter alia OTC derivatives, repurchase agreements, security lending, etc.), this may expose the portfolio to risks arising from the solvency of its counterparties and from their inability to respect the conditions of these contracts.

Credit risk

Credit risk, a fundamental risk relating to all fixed income securities as well as money market instruments, is the chance that an issuer will fail to make principal and interest payments when due. Issuers with higher credit risk typically offer higher yields for this added risk. Conversely, issuers with lower credit risk typically offer lower yields. Generally, government securities are considered to be the safest in terms of credit risk, while corporate debt, especially those with poorer credit ratings, have the highest credit risk. Changes in the financial condition of an issuer, changes in economic and political conditions in general, or changes in economic and political conditions specific to an issuer (particularly a sovereign or supranational issuer), are all factors that may have an adverse impact on an issuer's credit quality and security values. Related to credit risk is the risk of downgrade by a rating agency. Rating agencies such as Standard & Poor's, Moody's and Fitch, among others, provide ratings for a wide array of fixed income securities (corporate, sovereign, or supranational) which are based on their creditworthiness. The agencies may change their ratings from time to time due to financial, economic, political, or other factors, which, if the change represents a downgrade, can adversely impact the value of the affected securities.

Credit-Linked Securities risk

Credit-linked securities are debt securities that represent an interest in a pool of, or are otherwise collateralised by one or more, corporate debt obligations or credit default swaps incorporating debt or bank loan obligations. Such debt obligations may represent the obligations of one or more corporate issuers. A portfolio that invests in credit-linked securities has the right to receive periodic interest payments from the issuer of the credit-linked security (usually the seller of the underlying credit default swap(s)) at an agreed-upon interest rate, and a return of principal at the maturity date.

A portfolio that invests in credit-linked securities bears the risk of loss of its principal investment, and the periodic interest payments expected to be received for the duration of its investment in the credit-linked security, in the event that one or more of the debt obligations underlying the credit default swaps go into default or otherwise become non-performing. To the extent a credit-linked security represents an interest in underlying obligations of a single corporate or other issuer, a credit event with respect to such issuer presents greater risk of loss to a portfolio than if the credit-linked security represented an interest in underlying obligations of multiple issuers.

In addition, the portfolio bears the risk that the issuer of the credit-linked security will default or become bankrupt. In such an event, the portfolio may have difficulty being repaid, or fail to be repaid, the principal amount of its investment and the remaining periodic interest payments thereon.

An investment in credit-linked securities also involves reliance on the counterparty to the credit default swap entered into with the issuer of the credit-linked security to make periodic payments to the issuer under the terms of the swap. Any delay or cessation in the making of such payments may be expected in certain instances to result in delays or reductions in payments to the portfolio as an investor in such credit-linked securities. Additionally, credit-linked securities are typically structured as limited recourse obligations of the issuer of such securities such that the securities issued will usually be obligations solely of the issuer and will not be obligations or responsibilities of any other person.

Most credit-linked securities are structured as US Rule 144A securities so that they may be freely traded among institutional buyers. A portfolio will generally only purchase credit-linked securities, which are determined to be liquid in the opinion of the Manager. However, the market for credit-linked securities may suddenly become illiquid. The other parties to the transaction may be the only investors with sufficient understanding of the derivative to be interested in bidding for it. Changes in liquidity may result in significant, rapid and unpredictable changes in the prices for credit-linked securities. In certain cases, a market price for a credit-linked security may not be available or may not be reliable, and the portfolio could experience difficulty in selling such security at a price the Manager believes is fair.

The value of a credit-linked security will typically increase or decrease with any change in value of the underlying debt obligations, if any, held by the issuer and the credit default swap. Further, in cases where the credit-linked security is structured such that the payments to a portfolio are based on amounts received in respect of, or the value of performance of, any underlying debt obligations specified in the terms of the relevant credit default swap, fluctuations in the value of such obligation may affect the value of the credit-linked security.

Defaulted and Distressed Debt Securities risk

The portfolio may be permitted to purchase or hold debt securities on which the issuer is not currently making interest payments (defaulted debt securities) or debt securities which are considered distressed (i.e. which have a Standard & Poors notation below CCC long term rating or equivalent) and at risk of default. Such securities are considered speculative as regards the issuer's capacity to repay the principal and any interest, or maintain other terms of the offer documents over a longer period of time. These securities typically suffer heightened liquidity risk and may become illiquid.

Defaulted securities tend to lose much of their value before they default. In addition, the portfolio may incur additional expenses if it must try to recover principal or interest payments on a defaulted security.

Such investments may include taking exposure to issuers which are entities organised and operated solely for the purpose of restructuring the investment characteristics of various securities or obligations. These entities may be organised by investment banking firms, which receive fees in connection with establishing each entity and arranging for the placement of its securities.

Depositary receipts risk

Depositary receipts are negotiable instruments which are typically issued by a custodian bank, listed on a stock exchange, and offer an economic interest related to a specific number of shares in a company traded on a different stock exchange, typically in a different country, which are held by the custodian bank. As a depositary receipt is an equity-related security, it will provide indirect exposure to the equity risk of the underlying shares. In addition, there is credit risk on the issuing custodian bank, whose ability to pass on payments received from the issuer of the underlying shares could be limited by its own insolvency or similar credit event.

Derivative Instruments risk

The performance of derivative instruments depends largely on the performance of an underlying currency, security, index or other reference asset, and such instruments often have risks similar to the underlying instrument, in addition to other risks. Depending on the investment guidelines, the portfolio may be allowed to use options, futures, options on futures, and forward contracts on currencies, securities, indices, interest rates or other reference assets for hedging, efficient portfolio management and/or investment purposes. Derivative instruments involve costs and can create economic leverage in the portfolio which may result in significant volatility and cause the portfolio to participate in losses (as well as gains) in an amount that significantly exceeds the initial investment. In the case of futures transactions, the amount of the initial margin is small relative to the value of the futures contract so that transactions are "leveraged" or "geared". A relatively small market movement will have a proportionately larger impact which may work for or against the portfolio. The placing of certain orders which are intended to limit losses to certain amounts may not be effective because market conditions may make it impossible to execute such orders.

Transactions in options may also carry a high degree of risk. Selling ("writing" or "granting") an option generally entails considerably greater risk than purchasing options. Although the premium received is fixed, the portfolio may sustain a loss well in excess of that amount. The portfolio will also be exposed to the risk of the purchaser exercising the option and the portfolio will be obliged either to settle the option in cash or to acquire or deliver the underlying investment. If the option is "covered" by the portfolio holding a corresponding position in the underlying investment or a future on another option, the risk may be reduced. The risk of loss to a portfolio for a swap transaction on a net basis depends on which party is obliged to pay the net amount to the other party. If the counterparty is obliged to pay the net amount to the portfolio, the risk of loss to the portfolio is the loss of the entire amount that the portfolio is entitled to receive; if the portfolio is obliged to pay the net amount, the portfolio's risk of loss is limited to the net amount due (please also refer to "Swap Agreements risk").

Certain derivatives have the potential for a high degree of leverage regardless of the size of the initial investment. The use of leverage may cause the Manager to liquidate portfolio positions to satisfy obligations or to meet asset segregation requirements when it may not be advantageous to do so. 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 portfolio may not realise the intended benefits. Their successful use will usually depend on the Manager'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, a portfolio may not achieve the anticipated benefits of the transaction, and it may realise losses, which could be significant. If the Manager is not successful in using such derivative instruments, the portfolio's performance may be worse than if the Manager did not use such derivative instruments at all. To the extent that derivatives are used 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.

Derivative instruments may trade on exchanges or may be privately negotiated and trade "over-the-counter" (OTC). Exchange-traded derivatives include futures, options, options on futures, and warrants. Examples of OTC derivative instruments include currency forwards, interest rate swaps, credit default swaps, total return swaps or contracts for differences. Use of such OTC instruments could result in a loss if the counterparty to the transaction (with respect to forward currency contracts and other OTC derivatives) does not perform as promised, including because of such counterparty's bankruptcy or insolvency. This risk may be heightened during volatile market conditions. Collateral is employed for many OTC derivative transactions – it needs to be pledged to the counterparty if the portfolio has a net loss on a given transaction and portfolios may hold collateral pledged by the counterparty where they have a net gain on a given transaction. The value of the collateral may fluctuate, however, and it may be difficult to sell, so there are no assurances that the value of collateral held will be sufficient to cover the amount owed or will not be absorbed by other outstanding obligations of the counterparty. 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. To the extent that the Manager is unable to close out a position in the portfolio because of market illiquidity, the portfolio may not be able to prevent further losses of value in its derivatives holdings and its liquidity may be impaired to the extent that it has a substantial portion of its otherwise liquid assets marked as segregated to cover its obligations under such derivative instruments. A portfolio may also be required to take or make delivery of an underlying instrument 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 Manager may intend 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 it elects not to do so due to availability, cost or other factors.

Financial derivative instruments may be used for, among other purposes, synthetic short selling. The purchase of credit default swaps (CDS), for example, for a particular issuer without owning a debt obligation of that issuer effectively results in the portfolio having a short exposure to that issuer. The portfolio may also purchase credit default swaps to hedge an existing position in the same issuer. Purchasing a put option on a stock, debt obligation, or a currency without owning the stock, debt obligation or currency is also effectively going short (and again such a transaction may be entered into for the purpose of hedging an existing position). The only investment at risk in such strategies is the premium paid for the CDS or option, unlike the case of going short actual stocks, bonds or currencies where the full investment in such assets is at risk. Another synthetic short selling strategy is the selling of interest rate futures which will benefit from a rise in interest rates, thereby replicating going short interest rates. Where premium is paid for such synthetic short selling strategies (e.g. for credit default swaps or put options), there is the possibility of losing the entire investment if no credit event occurs (in the case of credit default swaps) or the option expires worthless (because the underlying asset did not fall below the strike price). Where a futures contract is entered into (e.g. selling interest rate futures), the potential loss is governed by the degree to which interest rates move down instead of up, the conversion factor applied vis-à-vis the basket of eligible securities, the time to delivery, and the notional amount associated with the contract. Additional strategies similar to these may be implemented with similar consequences and potential risks. Risk is mitigated by virtue of daily adjustment of variation margin and/or the maintenance of eligible collateral against the position. There is no assurance that such synthetic short selling strategies as described herein will be as effective in achieving short exposure for investment or hedging purposes as actual short selling strategies.

Under recent financial reforms, certain types of derivatives (i.e., certain swaps) are, and others eventually are expected to be, required to be cleared through a central counterparty. Central clearing is designed to reduce counterparty credit risk and increase liquidity compared to OTC swaps, but it does not eliminate those risks completely. With cleared swaps, there is also a risk of loss of initial and variation margin deposits in the event of bankruptcy of the futures broker (known as a Futures Commission Merchant, or “FCM”) with which the portfolio has an open position in a swap contract. If an FCM does not provide accurate reporting, the portfolio is also subject to the risk that the FCM could use the portfolio’s assets to satisfy its own financial obligations or the payment obligations of another customer to the central counterparty. With cleared swaps, a portfolio may not be able to obtain as favourable terms as it would be able to negotiate for a bilateral, uncleared swap. In addition, an FCM may unilaterally amend the terms of its agreement with a portfolio, which may include the imposition of position limits or additional margin requirements with respect to the portfolio’s investment in certain types of swaps. Central counterparties and FCMs generally can require termination of existing cleared swap transactions at any time, and can also require increases in margin above the margin that is required at the initiation of the swap agreement.

The regulation of cleared and uncleared swaps, as well as other derivatives, is a rapidly changing area of law and is subject to modification by government and judicial action. In addition, regulators and exchanges in many jurisdictions are authorised to take extraordinary actions in the event of a market emergency, including, for example, the implementation or reduction of speculative position limits, the implementation of higher margin requirements, the establishment of daily price limits and the suspension of trading.

It is not possible to predict fully the effects of current or future regulation. New requirements, even if not directly applicable to a portfolio, may increase the cost of a portfolio's investments and cost of doing business, which could have an adverse effect.

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

Dividend-paying Equity risk

There can be no guarantee that the companies that a portfolio invests in and which have historically paid dividends will continue to pay dividends or to pay dividends at the current rates in the future. The reduction or discontinuation of dividend payments may have a negative impact on the value of the portfolio's holdings.

Emerging Markets and Frontier Markets risk

All investments in the securities issued by corporations, governments, and government related entities in different nations and denominated in different currencies involve certain risks. These risks are typically increased in less developed countries, such as frontier and emerging markets. Such risks, which can have adverse effects on portfolio holdings, may include: (i) investment and repatriation restrictions; (ii) currency fluctuations; (iii) the potential for unusual market volatility as compared to more developed nations; (iv) government involvement in the private sector; (v) lower ethical standards, more pervasive corruption and crime, and/or poorer corporate governance, including reduced transparency, limited investor information and less stringent investor disclosure requirements; (vi) shallow and substantially smaller liquid securities markets than in more developed countries, increasing liquidity risk, which means a portfolio may at times be unable to sell certain securities at desirable prices; (vii) certain local tax law considerations; (viii) limited regulation of the securities markets; (ix) international and regional political and economic developments, which may include heightened risk of nationalisation or expropriation of assets; (x) possible imposition of exchange controls or other local governmental laws or restrictions; (xi) the increased risk of adverse effects from deflation, inflation and currency devaluation; (xii) the possibility of limited legal recourse for the portfolio; (xiii) the custodial and/or the settlement systems may not be fully developed, which may lead to delays in settlement and/or heightened safekeeping risk; and (xiv) a country may be heavily dependent on specific sectors such as commodities or be export driven, causing reliance on trade partners.

Investors in emerging markets should in particular be informed that the liquidity of securities issued by corporations and public-law entities in emerging markets may be substantially smaller than with comparable securities in industrialised countries.

These risks are typically heightened for frontier markets.

Equity risk

The value of all portfolios that invest in equity and equity-related securities fluctuate daily. Prices of equities can be influenced and affected by many micro and macro factors such as economic, political, market, and issuer-specific changes. Such changes may adversely affect the value of the equities which can go up and down, regardless of company-specific performance. Additionally, different industries, financial markets, and securities can react differently to these changes. Such fluctuations are often exacerbated in the short-term as well. The risk that one or more companies in a portfolio will fall, or fail to rise, can adversely affect the overall portfolio performance in any given period and investment in equities could incur significant losses.

Europe and Eurozone risk

Some portfolios may invest in Europe and the Eurozone. Mounting sovereign debt burdens (e.g. any sovereigns within the Eurozone, which default on their debts, may be forced to restructure their debts and faced difficulties in obtaining credit or refinancing) and slowing economic growth among European countries, combined with uncertainties in European financial markets, including feared or actual failures in the banking system, the possibility for one or more countries to withdraw from the European Union, including the United Kingdom, which is a significant market in the global economy, and the possible break-up of the Eurozone and Euro currency, may adversely affect interest rates and the prices of both fixed income and equity securities across Europe and potentially other markets as well. These events may increase volatility, liquidity and currency risks associated with investments in Europe. The aforesaid economic and financial difficulties in Europe may spread across Europe and as a result, a single or several European countries may exit the Eurozone or a sovereign within the Eurozone may default on its debts. In any event of the break-up of the Eurozone or Euro currency, portfolios may be exposed to additional operational or performance risks.

While the European governments, the European Central Bank, and other authorities are taking measures (e.g. undertaking economic reforms and imposing austerity measures on citizens) to address the current fiscal conditions, these measures may not have the desired effect and therefore the future stability and growth of Europe is uncertain. The performance of portfolios may be adversely affected should there be any adverse credit events (e.g. downgrade of the sovereign credit rating or default or bankruptcy of any Eurozone countries).

Floating Rate Corporate Investments risk

The floating rate corporate loans and corporate debt securities in which a portfolio may invest are often issued in connection with highly leveraged transactions. Such transactions include leveraged buyout loans, leveraged recapitalisation loans, and other types of acquisition financing. Leveraged buyout loans are subject to greater credit risks than other investments including a greater possibility that the borrower may default or enter bankruptcy. Some of these loans may be "covenant-lite" loans which do not include terms which allow the lender to control and track the performance of the borrower and declare a default if certain criteria are breached.

Foreign Currency risk

Since the securities, including cash and cash equivalents, held by a portfolio may be denominated in currencies different from its base currency, the portfolio may be affected favourably or unfavourably by exchange control regulations or changes in the exchange rates between such reference currency and other currencies. If the currency in which a security is denominated appreciates against the base currency, the price of the security could increase. Conversely, a decline in the exchange rate of the currency would adversely affect the price of the security.

To the extent that the Manager seeks to use any strategies or instruments to hedge or to protect against currency exchange risk, there is no guarantee that hedging or protection will be achieved. Unless otherwise stated in the investment guidelines, there is no requirement that any portfolio seeks to hedge or to protect against currency exchange risk in connection with any transaction.

Currency management strategies may substantially change a portfolio’s exposure to currency exchange rates and could result in losses to the portfolio if currencies do not perform as the Manager expects. In addition, currency management strategies, to the extent that they reduce the portfolio’s exposure to currency risks, may also reduce the portfolio’s ability to benefit from favourable changes in currency exchange rates. There is no assurance that the portfolio’s use of currency management strategies will benefit the portfolio or that they will be, or can be, used at appropriate times. Furthermore, there may not be perfect correlation between the amount of exposure to a particular currency and the amount of securities in the portfolio denominated in that currency. Investing in foreign currencies for purposes of gaining from projected changes in exchange rates, as opposed to hedging currency risks applicable to the portfolio's holdings, further increases the portfolio's exposure to foreign investment losses.

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.

Growth Stocks risk

Funds investing in growth stocks can be more volatile and may react differently to economic, political, market, and issuer-specific developments than the overall market. Historically, the prices of growth stocks have been more volatile than other securities, especially, over short term periods of time. Growth stocks may also be more expensive, relative to their earnings, than the market in general. As such, growth stocks can experience greater volatility in reaction to changes in earnings growth.

Inflation-Indexed Securities risk

Inflation-indexed securities have a tendency to react to changes in real interest rates. Real interest rates represent nominal (stated) interest rates lowered by the anticipated effect of inflation. In general, the price of an inflation-indexed security can decrease when real interest rates increase, and can increase when real interest rates decrease. Interest payments on inflation-indexed securities will fluctuate as the principal and/or interest is adjusted for inflation and can be unpredictable. There can be no assurance that the Consumer Price Index or any other measure used will accurately correspond to the rate of inflation experienced by a particular investor. Any increase in the principal amount of an inflation-protected debt security will typically be considered taxable ordinary income, even though investors, do not receive their principal until maturity.

Initial Public Offerings risk

IPO risk is the risk that the market values of IPO shares may experience high volatility from factors such as the absence of a prior public market, unseasoned trading, the limited number of shares available for trading and limited information about the issuer. Additionally, IPO shares may be held for a very short period of time, which may increase transaction expenses experienced during a period. Some investments in IPOs may have an immediate and significant impact on a portfolio's performance.

Interest Rate Securities risk

Debt securities or money market instruments are subject to interest rate risk. A fixed income security's value will generally increase in value when interest rates fall and decrease in value when interest rates rise. Interest rate risk is the chance that such movements in interest rates will negatively affect a security's value. Fixed income securities with longer-term maturities tend to be more sensitive to interest rate changes than shorter-term securities. As a result, longer-term securities tend to offer higher yields for this added risk.

Variable rate securities (which include floating-rate debt securities) generally are less sensitive to interest rate changes than fixed rate debt securities. However, the market value of variable rate debt securities may decline when prevailing interest rates rise if their interest rates 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. Floating-rate securities may be rated below investment grade (such securities are commonly referred to as "junk bonds"). Limits on the aggregate amount by which a variable rate security's interest rate may increase over its lifetime or during any one adjustment period can prevent the interest rate from ever adjusting to prevailing market rates.

Investment Funds risk

Investing in investment funds may be more costly than investing in the underlying securities directly. The determination of net asset value (or price) of the shares of any particular investment fund held by a portfolio may be suspended under certain emergency conditions.

Investments in investment funds may subject the portfolio to additional risks than investing directly in the underlying securities. These risks include the possibility that an unregistered fund or an exchange traded fund ("ETF") may experience a lack of liquidity that can result in greater volatility than its underlying securities. In addition, an ETF may trade at a premium or discount to its net asset value, as shares of an ETF are bought and sold based on exchanges on market values and not at the ETF's net asset value.

Another risk of investing in multiple investment funds is the possibility that one investment fund may buy the same securities that another investment fund sells. If this happens, an investor in the affected fund would indirectly bear the costs of these transactions without accomplishing the intended investment purpose. Also, investment funds may hold portfolio securities in common with each other or in common with the wider portfolio, thereby reducing the diversification benefits.

Furthermore, uncertainties as to the valuation of the collective investment scheme assets and/or accounts may have an adverse effect on the net asset value of the relevant collective investment scheme where such judgements regarding valuations prove to be incorrect. Indeed, although the valuation of a collective investment scheme is subject to the fair value principle, valuation is not always done on the basis of audited financial accounts. Where the scheme holds a significant number of investments which are illiquid or otherwise not actively traded and in respect of which reliable prices may be difficult to obtain, valuation may be subject to subsequent adjustments upward or downward.

In addition, the opportunities to realise an investment in a collective investment scheme is often limited in accordance with the terms and conditions applicable to the scheme and subject to long periods of advance notice (during which the price at which interests may be redeemed may fluctuate or move against you). There may be no secondary market in the collective investment scheme and therefore an investment in such a scheme may be (highly) illiquid.

Legal, Political and Regulatory Risk

Legal and regulatory risks apply to investments in countries with unclear and changing laws or the lack of established or effective avenues for legal redress. Regulators and self-regulatory organisations and exchanges are authorised to take extraordinary actions in the event of market emergencies. The effect of any future regulatory action on the portfolio could be substantial and adverse. The portfolio may be exposed to the risk of terrorist actions, to the risk that economic and diplomatic sanctions may be in place or imposed on certain States and military action may be commenced. The impact of such events could have a material effect on general economic conditions and market liquidity.

Leverage risk

Leverage exposure may be obtained through the use of financial derivative instruments or through cash borrowing (where permitted by the investment guidelines). Some portfolios may have a high level of leverage obtained through financial derivative instruments regardless of their use, i.e. for investment purpose or hedging purpose. As an example, financial derivative instruments used to reduce risk do also contribute to an increase of the level of leverage of a portfolio when expressed in notional terms. Certain financial derivative instruments have the potential for a high degree of leverage regardless of the size of the initial investment. The use of leverage may cause a portfolio to liquidate portfolio positions to satisfy its obligations or to meet asset segregation requirements when it may not be advantageous to do so. As a result, a relatively small price movement in a derivative contract may result in substantial losses.

Liquidity risk

Liquidity risk takes two forms: asset side liquidity risk and liability side liquidity risk. Asset side liquidity risk refers to the inability to sell a security or position at its quoted price or market value due to such factors as a sudden change in the perceived value or credit worthiness of the position, or due to adverse market conditions generally. Liability side liquidity risk refers to the risk that, if there was a need to convert the portfolio to cash, it may not be possible to sell the portfolio's positions in a timely manner at prices near to the Manager's valuations. Markets where the portfolio's securities are traded could also experience such adverse conditions as to cause exchanges to suspend trading activities.

Certain securities are illiquid due to a limited trading market, financial weakness of the issuer, legal or contractual restrictions on resale or transfer, or that are otherwise illiquid in the sense that they cannot be sold within seven days at approximately the price at which the Manager values them. Securities that are illiquid involve greater risk than securities with more liquid markets. Market quotations for such securities may be volatile and/or subject to large spreads between bid and ask prices. Illiquidity may have an adverse impact on market price and the Manager's ability to sell particular securities when necessary to meet liquidity needs or in response to a specific economic event.

Low-Rated or Non-Investment Grade Securities risk

High-yield debt securities (including loans) and unrated securities of similar credit quality ("high-yield debt instruments" or "junk bonds") involve greater risk of a complete loss of the investment, or delays of interest and principal payments, than higher-quality debt securities. Issuers of high-yield debt instruments are not as strong financially as those issuing securities of higher credit quality. High-yield debt instruments are generally considered predominantly speculative by the applicable rating agencies as these issuers are more likely to encounter financial difficulties and are more vulnerable to changes in the relevant economy, such as a recession or a sustained period of rising interest rates, that could affect their ability to make interest and principal payments when due. If an issuer stops making interest and/or principal payments, payments on the securities may never resume. These instruments may become worthless.

The prices of high-yield debt instruments fluctuate more than higher-quality securities. Prices are especially sensitive to developments affecting the issuer's business or operations and to changes in the ratings assigned by rating agencies. In addition, the entire high-yield debt market can experience sudden and sharp price swings due to changes in economic conditions, stock market activity, large sustained sales by major investors, a high-profile default, or other factors. Prices of corporate high-yield debt instruments often are closely linked with the company's stock prices and typically rise and fall in response to factors that affect stock prices.

High-yield debt instruments are generally less liquid than higher-quality securities. Many of these securities are not registered for sale with relevant regulatory authorities in the local jurisdiction and/or do not trade frequently. When they do trade, their prices may be significantly higher or lower than expected. At times, it may be difficult to sell these securities promptly at an acceptable price, which may limit the ability to sell securities in response to specific economic events or to meet redemption requests. As a result, high-yield debt instruments generally pose greater illiquidity and valuation risks.

The use of credit ratings in evaluating debt securities can involve certain risks, including the risk that the credit rating may not reflect the issuer's current financial condition or events since the security was last rated by a rating agency. Credit ratings may be influenced by conflicts of interest or based on historical data that no longer apply or are accurate. Recently, legislation and regulations to reform rating agencies have been proposed and may adversely impact the portfolio's investments or investment process.

Unrated debt securities determined by the Manager to be of comparable quality to rated securities which the portfolio may purchase may pay a higher interest rate than such rated debt securities and be subject to a greater risk of illiquidity or price changes. Less public information is typically available about unrated securities or issuers.

Exposure to the low-rated or high-yield debt may be achieved through synthetic means. For example, the CDX is a credit default swap on a basket of high yield bonds, constituting in effect a high yield bond index. By purchasing such an instrument, the portfolio is buying protection (i.e. the ability to get par for the bonds in the event of an unfavourable credit event), allowing the portfolio to hedge its exposure or go short the high yield sector. By selling such an instrument short and holding cash against the potential obligation to purchase it, the portfolio is selling protection and effectively getting long exposure to the high yield sector more efficiently than purchasing individual bonds. The risks associated with such synthetic instruments are comparable to those of the underlying high yield securities that the instruments are seeking to replicate, in addition to the risk that the synthetic instruments themselves do not perform as intended due to adverse market conditions.

Market risk

The market values of securities will go up or down, sometimes rapidly or unpredictably. Securities may decline in value due to factors affecting individual issuers, securities markets generally or particular industries or sectors within the securities markets. The value of a security may go up or down due to general market conditions which are not specifically related to a particular issuer, such as real or perceived adverse economic conditions, changes in the general outlook for revenues or corporate earnings, changes in interest or currency rates or adverse investor sentiment generally. They may also go up or down due to factors that affect an individual issuer or a particular industry or sector, such as changes in production costs and competitive conditions within an industry. During a general downturn in the securities markets, multiple asset classes may decline in value. When markets perform well, there can be no assurance that securities held by a portfolio will participate in or otherwise benefit from the advance.

Stock prices tend to go up and down more dramatically than those of debt securities. A slower-growth or recessionary economic environment could have an adverse effect on the prices of the various stocks held by the portfolio.

Mortgage- and Asset-Backed Securities risk

Mortgage-backed securities (sometimes referred as mortgage pass-through securities) are securities that are backed by pools of mortgage loans where the payment of interest and principal from the underlying mortgages are passed through to the holders of the mortgage-backed securities. The underlying mortgages may be single family, multi-family, or commercial mortgages (that latter are frequently called commercial mortgage-backed securities, or CMBS), and may be fixed rate or adjustable rate mortgages (if adjustable, such securities are called Adjustable Rate Mortgage Securities or ARMS). Mortgage-backed securities differ from conventional debt securities in that principal is paid back over the life of the security rather than at maturity, as the underlying mortgages are subject to unscheduled pre-payments of principal before the security's maturity date due to voluntary prepayments, refinancing's or foreclosures on the underlying mortgage loans. This means a loss of anticipated interest, and a portion of its principal investment represented by any premium the portfolio may have paid over par at the time of purchase. Mortgage pre-payments generally increase when interest rates fall.

Mortgage-backed securities also are subject to extension risk. An unexpected rise in interest rates could reduce the rate of pre-payments on mortgage-backed securities and extend their life. This could cause the price of the mortgage-backed securities to be more sensitive to interest rate changes. Issuers of asset-backed securities may have limited ability to enforce the security interest in the underlying assets, and credit enhancements provided to support the securities, if any, may be inadequate to protect investors in the event of default.

Collateralised Mortgage Obligations (CMOs) are securities backed by a pool of mortgage pass-through securities or actual mortgage loans that are structured into various tranches with varying maturities and varying priorities in terms of their access to the principal and interest payments from the underlying assets. Such securities will have, depending on the tranches, varying degrees of pre-payment risk and credit risk, depending on their priority in the capital structure. The shorter, more senior tranches will generally be lower risk than the longer dated, more junior tranches.

Mortgage-backed securities may be offered as interest only (IO) or principal only (PO) strips, where only the interest or the principal of the underlying mortgages in the pool is passed on to the security holders. These types of securities are highly sensitive to the pre-payment experience associated with the underlying mortgages and will behave in opposite ways to the same trend in pre-payments. For IO securities, early pre-payments within the pool will mean less than expected interest payments since the mortgages will have terminated, adversely affecting security holders. For PO securities, early pre-payments within the pool will mean quicker repayment of principal than expected, benefiting security holders. Because of the highly sensitive nature of these securities, the possibility of sharp declines in prices is much greater compared to conventional mortgage-backed securities.

Mortgage- and asset-backed securities may be structured as synthetic securities. For example, the CMBX is a credit default swap on a basket of CMBS bonds, constituting in effect a CMBS index. By purchasing such an instrument, the portfolio is buying protection (i.e. the ability to get par for the bonds in the event of an unfavourable credit event), allowing the portfolio to hedge its exposure or go short the CMBS sector. By selling such an instrument short and holding cash against the potential obligation to purchase it, the portfolio is selling protection and effectively getting long exposure to the CMBS sector more quickly and efficiently than purchasing individual bonds. The risks associated with such synthetic instruments are comparable to those of the underlying ABS or MBS securities that the instruments are seeking to replicate, in addition to the risk that the synthetic instruments themselves do not perform as intended due to adverse market conditions.

Asset-backed securities are very similar to mortgage-backed securities, except that the securities are collateralised by other types of assets besides mortgages, such as credit card receivables, home-equity loans, manufactured homes, automobile loans, student loans, equipment leases, or senior bank loans, among others. Like mortgage-backed securities, asset-backed securities are subject to pre-payment and extension risks.

Mortgage Dollar Roll risk

Some portfolios may engage in mortgage dollar roll transactions. In a mortgage dollar roll, a portfolio sells mortgage-backed securities for delivery in the current month and simultaneously contracts to repurchase substantially similar securities on a specified future date (typically so-called "to-be-announced" or TBA securities where the actual securities underlying the transaction are not identified, rather only certain parameters are specified, e.g. coupon, maturity, issuer, mortgage type, and month of settlement). During the period between the sale and repurchase (the "roll period"), the portfolio foregoes principal and interest paid on the mortgage-backed securities. The portfolio is compensated by the difference between the current sales price and the lower forward price for the future purchase (often referred to as the "drop"), as well as by the interest earned on the cash proceeds of the initial sale. The portfolio could suffer a loss if the contracting party fails to perform the future transaction and the portfolio is therefore unable to buy back the mortgage-backed securities it initially sold. Mortgage dollar rolls will be entered into only with high-quality government securities dealers and member banks of the US Federal Reserve System.

Mortgage dollar rolls transactions may (due to the deemed borrowing position involved), increase the portfolio's overall investment exposure and result in losses. Mortgage dollar rolls will be considered borrowings for purposes of the portfolio's borrowing limitations unless the portfolio segregates on its books an offsetting cash position or a position of liquid securities of equivalent value.

Operational Risk

Investments may be exposed to operational risks, being the risk that operational processes, including those related to the safekeeping of assets, valuation and transaction processing including settlement may fail, resulting in losses. Potential causes of failure may arise from human errors, physical and electronic system failures and other business execution risks as well as external events.

Participatory Notes risk

Participatory Notes also known as P-Notes are financial instruments that are commonly used to obtain exposure to an investment in securities or indices in a local market where direct ownership is not allowed or where the transaction, custody and other costs of direct ownership are so high that the Manager considers P-Notes to be a better means of obtaining investment exposure for the portfolio, where permitted by the portfolio's guidelines. A P-Note will provide exposure to the relevant risks of the underlying exposure, e.g. equity risk on shares, or credit and interest rate on bonds, etc.

P-Notes are issued by a bank and may embed a derivative. Therefore investing in P-Notes means exposure not only to the underlying exposure, but also to credit risk on the issuer, and the risk of counterparty default under the derivative. Either of these factors could result in the loss of the full market value of the equity. In addition, there may be liquidity risk, particularly if the P-note is unlisted.

Prepayment risk

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 a portfolio reinvests the prepayments of principal it receives, it may receive a rate of interest that is lower than the rate on the existing security. Securities subject to prepayment 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.

QFII risk in China

A portfolio may invest in qualified foreign institutional investor (QFII) portfolios authorised by the China Securities Regulatory Commission of mainland China to invest in the securities market of mainland China (China A-Shares). The laws, regulations, including measures allowing QFIIs to invest in China A-Shares, government policies and political and economic climate in China may change with little or no advance notice. Any such change could adversely affect market conditions and the performance of the Chinese economy and, thus, the value of securities in the QFII's portfolio.

A QFII portfolio bears the risk of being not redeemable during a determined lock up period or being less redeemable where the redemption of the China A-Shares may depend, inter alia, on the mainland China laws and practice affecting said portfolio's ability to liquidate investments and to remit the proceeds thereof out of mainland China. The repatriation restrictions, and any failure or delay in obtaining relevant approvals from Chinese authorities could restrict the relevant portfolio's ability to satisfy all or any redemption requests in respect of any particular redemption date.

A portfolio investing in QFII's portfolio and China A-Shares may experience limited liquidity of securities issued by such QFII affecting the ability for the portfolio to dispose of its holding.

Real Estate Securities risk

Some portfolios invest in real estate securities, securities linked to real estate indices or a basket of real estate securities, or real estate investment trusts ("REITs"). Real estate values rise and fall in response to a variety of factors, including local, regional and national economic conditions, interest rates and tax considerations. When economic growth is slow, demand for property decreases and prices may decline. Property values may decrease because of overbuilding, increases in property taxes and operating expenses, changes in zoning laws, environmental regulations or hazards, uninsured casualty or condemnation losses, or general decline in neighbourhood values.

Securities linked to a real estate index or basket of real estate related securities may take the form of a structured note whose value is intended to move in line with the underlying index (or indices) or real estate related securities basket specified in the note. Such notes involve assuming risk associated with the counterparty that is packaging the note. Such notes depend on the solvency of the issuer for the life of the note. There is no guarantee that such notes will perform as intended in line with the underlying index (indices) or basket of securities. The liquidity of such notes may also be limited, depending on the creditworthiness of the issuer of the note as well as the nature of the underlying indices or basket of securities.

Equity REITs may be affected by any changes in the value of the properties owned and other factors, and their prices tend to go up and down. A REIT's performance depends on the types and locations of the properties it owns and on how well it manages those properties. A decline in rental income may occur because of extended vacancies, increased competition from other properties, tenants' failure to pay a rent or poor management. A REIT's performance also depends on the company's ability to finance property purchases and renovations and manage its cash flows. Since REITs typically are invested in a limited number of projects or in a particular market segment, they are more susceptible to adverse developments affecting a single project or market segment than more broadly diversified investments.

Repurchase and Reverse Repurchase Transactions risk

In the event of the failure of the counterparty with which cash has been placed as part of a repurchase transaction, 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 portfolio to meet sale requests, security purchases or, more generally, reinvestment; and that (3) repurchase transactions will, as the case may be, further expose the portfolio to risks similar to those associated with optional or forward derivative financial instruments, which risks are further described in the Derivatives Risk section of this document.

In a reverse repurchase transaction, a portfolio 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 relevant portfolio.

Restructuring Companies risk

Portfolios may hold securities of companies involved in mergers, consolidations, liquidations and reorganisations (including those involving bankruptcy) or as to which there exist tender or exchange offers, and may participate in such transactions; they may also purchase indebtedness and participations therein, both secured and unsecured, of debtor companies engaged in reorganisation or financial restructuring. Such investments also involve greater credit risks. The companies involved in reorganisation or financial restructuring tend to have a relatively weak financial position and may also be subject to the risks that the restructuring could be disruptive to the business and management structure of the companies involved, which may expose the portfolios to higher investment risk.

Sector, Geographical and Concentration risk

Investment in certain sectors may introduce heightened sector-specific risk. Exposure to issuers, which rely on hard commodities like the consumption of natural resources, such as for example, the energy, materials, industrials, technology, and utilities sectors may cause the portfolio to have indirect exposure to commodities risk. Similarly, investment in the consumer staples sector may be affected by indirect commodities risk arising from soft commodities like agricultural products.

Issuers principally concerned with the supply of commodities may have a limited ability to set prices, and as such their securities may be subject to a heightened risk of being affected by industry wide supply and demand issues or an increased sensitivity to economic downturns.

Certain sectors are more highly regulated. Issuers with exposure to the biotechnology, communication, technology and financial sectors may be subject to greater governmental regulation than other sectors and, as a result, changes to such regulation may have a material adverse effect on these sectors. Such investments may drop sharply in value in response to market, regulatory or research setbacks, in addition to possible adverse effects from the competition of new market entrants, patent considerations and product obsolescence. Particularly within technology, short product cycles and diminishing profit margins are additional risk to long-term profitability.

The above risks may be heightened where the investment guidelines or other factors decrease the number of sectors in which the portfolio invests, or where the permitted sectors have a high degree of correlation.

A strategy that is focused on one or a limited number of countries may compound the above factors because of a country or region being more reliant on particular sectors. Investment in a particular region or a single country can cause concentration risk, depending on the size and diversification of the market, and may also include emerging or frontier markets risk. Concentration in a smaller number of countries can increase the effect of other risks, such as the potential for currency controls or other risks to impact a larger portion of the portfolio. Similarly, where the strategy includes an intention to maintain a portfolio with holdings in a relatively limited number of issuers (for example, the securities of 30 to 40 companies) this also creates concentration risk.

Such portfolios may be more volatile than broadly diversified portfolios. Such portfolios may be exposed to greater risk since underperformance of one or a few sectors or companies will have a greater impact in a less diversified portfolio where there are fewer positions so each position will tend to be a larger percentage of total net assets.

Securities Lending Risk

In case of default, bankruptcy or insolvency of the borrower of securities lent from a portfolio, there is a risk of delay in recovery (that may restrict the ability of a portfolio to meet delivery obligations under security sales or payment obligations arising from sale 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 a portfolio 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.

A portfolio 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 portfolio on lending the securities. This may also create volatility and introduce market exposures inconsistent with the objectives of the portfolio.

Securities lending arrangements may be set up as part of the arrangements you make with your custodian. Such arrangements may be outside the Manager’s control and therefore for your custodian rather than the Manager to monitor.

Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect risk

Certain Funds may invest and have direct access to certain eligible China A-Shares via the Shanghai-Hong Kong Stock Connect and/or Shenzhen-Hong Kong Stock Connect (together referred to as "Stock Connect"). Shanghai-Hong Kong Stock Connect is a securities trading and clearing links programme developed by Hong Kong Exchanges and Clearing Limited ("**HKEx**"), Shanghai Stock Exchange ("**SSE**") and China Securities Depository and Clearing Corporation Limited ("**ChinaClear**"). Shenzhen-Hong Kong Stock Connect is a securities trading and clearing links programme developed by HKEx, Shenzhen Stock Exchange ("**SZSE**") and ChinaClear. The aim of Stock Connect is to achieve mutual stock market access between mainland China and Hong Kong.

The Stock Connect comprises two Northbound Trading Links, one between SSE and Stock Exchange of Hong Kong Limited ("**SEHK**"), and the other between SZSE and SEHK. Stock Connect will allow foreign investors to place orders to trade eligible China A-Shares listed on the SSE ("**SSE Securities**") or on the SZSE ("**SZSE Securities**") (the SSE Securities and SZSE Securities collectively referred to as the "**Stock Connect Securities**") through their Hong Kong based brokers.

The SSE Securities include all the constituent stocks from time to time of the SSE 180 Index and SSE 380 Index, and all the SSE-listed China A-Shares that are not included as constituent stocks of the relevant indices but which have corresponding H-Shares listed on the SEHK, except (i) those SSE-listed shares which are not traded in RMB and (ii) those SSE-listed shares which are included in the "risk alert board". The list of eligible securities may be changed subject to the review and approval by the relevant PRC regulators from time to time. The SZSE Securities include all the constituent stocks from time to time of the SZSE Component Index and the SZSE Small/Mid Cap Innovation Index which has a market capitalization of at least RMB 6 billion, and all the SZSE-listed China A-Shares that are not included as constituent stocks of the relevant indices but which have corresponding H-Shares listed on SEHK, except those SZSE-listed shares (i) which are not quoted and traded in RMB, (ii) which are included in the "risk alert board"; (iii) which have been suspended from listing by the SZSE; and (iv) which are in the pre-delisting period. The list of eligible securities may be changed subject to the review and approval by the relevant PRC regulators from time to time.

Further information about the Stock Connect is available online at the website:
http://www.hkex.com.hk/eng/market/sec_tradinfra/chinaconnect/Documents/Investor_Book_En.pdf

In addition to the risks associated with the Chinese market and risks related to investments in RMB, investments through the Stock Connect are subject to additional risks, namely, quota limitations, suspension risk, operational risk, restrictions on selling imposed by front-end monitoring, recalling of eligible stocks, clearing and settlement risks, nominee arrangements in holding China A-Shares and regulatory risk.

Quota limitations

The programmes are subject to a daily quota limitation which may restrict a Funds' ability to invest in Stock Connect Securities through the programmes on a timely basis. In particular, once the Northbound daily quota is reduced to zero or the Northbound daily quota is exceeded during the opening call session, new buy orders will be rejected (although investors will be allowed to sell their cross–boundary securities regardless of the quota balance).

Suspension risk

Each of the SEHK, SZSE and SSE reserves the right to suspend trading if necessary for ensuring an orderly and fair market and that risks are managed prudently. In case of a suspension, the Funds' ability to access the mainland China market will be adversely affected.

Differences in trading day

Stock Connect only operates on days when both mainland China and Hong Kong markets are open for trading and when banks in both markets are open on the corresponding settlement day. Due to the difference in trading days between the mainland China and the Hong Kong markets, there may be occasions when it is a normal trading day for the mainland China market but not in Hong Kong and, accordingly, the Funds cannot carry out any Stock Connect Securities trading. The Funds may therefore be subject to a risk of price fluctuations in China A-Shares during the periods when Stock Connect is not operational.

Restrictions on selling imposed by front-end monitoring

Mainland China regulations require that before an investor sells any share, there should be sufficient shares in the account; otherwise both SZSE and SSE will reject the sell order concerned. SEHK will carry out pre-trade checking on China A-Shares sell orders of its participants (i.e. the stock brokers) to ensure there is no over-selling.

Clearing settlement and custody risks

Hong Kong Securities Clearing Company Limited, a wholly-owned subsidiary of HKEx ("HKSCC") and ChinaClear establish the clearing links and each is a participant of each other to facilitate clearing and settlement of cross-boundary trades. As the national central counterparty of the PRC's securities market, ChinaClear operates a comprehensive network of clearing, settlement and stock holding infrastructure. ChinaClear has established a risk management framework and measures that are approved and supervised by the China Securities Regulatory Commission ("**CSRC**"). The chances of ChinaClear default are considered to be remote.

Should the remote event of ChinaClear default occur and ChinaClear be declared as a defaulter, HKSCC will in good faith, seek recovery of the outstanding stocks and monies from ChinaClear through available legal channels or through ChinaClear's liquidation. In that event, the relevant portfolio(s) may suffer delay in the recovery process or may not be able to fully recover its losses from ChinaClear.

The China A-Shares traded through Stock Connect are issued in scripless form, so investors, such as the relevant Funds, will not hold any physical China A-Shares. Hong Kong and overseas investors, such as the Funds, who have acquired Stock Connect Securities through Northbound trading should maintain the Stock Connect Securities with their brokers' or custodians' stock accounts with the Central Clearing and Settlement System operated by HKSCC for the clearing securities listed or traded on SEHK. Further information on the custody set-up relating to the Stock Connect is available upon request at the registered office of the Company.

Operational risk

The Stock Connect provides a new channel for investors from Hong Kong and overseas, such as the Funds, to access the China stock market directly. The Stock Connect is premised on the functioning of the operational systems of the relevant market participants. Market participants are able to participate in this program subject to meeting certain information technology capability, risk management and other requirements as may be specified by the relevant exchange and/or clearing house.

It should be appreciated that the securities regimes and legal systems of the two markets differ significantly and in order for the trial program to operate, market participants may need to address issues arising from the differences on an on-going basis.

Further, the "connectivity" in the Stock Connect program requires routing of orders across the border. This requires the development of new information technology systems on the part of the SEHK and exchange participants (i.e. a new order routing system ("China Stock Connect System") to be set up by SEHK to which exchange participants need to connect). There is no assurance that the systems of the SEHK and market participants will function properly or will continue to be adapted to changes and developments in both markets. In the event that the relevant systems failed to function properly, trading in both markets through the program could be disrupted. The relevant Funds' ability to access the China A-Share market (and hence to pursue their investment strategy) will be adversely affected.

Nominee arrangements in holding China A-Shares

HKSCC is the "nominee holder" of the Stock Connect securities acquired by overseas investors (including the relevant portfolio(s)) through the Stock Connect. The CSRC Stock Connect rules expressly provide that investors such as the Funds enjoy the rights and benefits of the Stock Connect securities acquired through the Stock Connect in accordance with applicable laws. However, the courts in mainland China may consider that any nominee or custodian as registered holder of Stock Connect securities would have full ownership thereof, and that even if the concept of beneficial owner is recognised under mainland China law those SSE securities would form part of the pool of assets of such entity available for distribution to creditors of such entities and/or that a beneficial owner may have no rights whatsoever in respect thereof. Consequently, the relevant portfolio(s) and the Depositary cannot ensure that the portfolio's ownership of these securities or title thereto is assured in all circumstances.

Under the rules of the Central Clearing and Settlement System operated by HKSCC for the clearing of securities listed or traded on SEHK, HKSCC as nominee holder shall have no obligation to take any legal action or court proceeding to enforce any rights on behalf of the investors in respect of the Stock Connect securities in mainland China or elsewhere. Therefore, although the relevant Funds' ownership may be ultimately recognised, these Funds may suffer difficulties or delays in enforcing their rights in China A-Shares.

To the extent that HKSCC is deemed to be performing safekeeping functions with respect to assets held through it, it should be noted that the Depositary and the relevant portfolio(s) will have no legal relationship with HKSCC and no direct legal recourse against HKSCC in the event that a portfolio suffers losses resulting from the performance or insolvency of HKSCC.

Investor compensation

Investments of the relevant Funds through Northbound trading under the Stock Connect will not be covered by Hong Kong's Investor Compensation Fund. Hong Kong's Investor Compensation Fund is established to pay compensation to investors of any nationality who suffer pecuniary losses as a result of default of a licensed intermediary or authorised financial institution in relation to exchange-traded products in Hong Kong.

Since default matters in Northbound trading via the Stock Connect do not involve products listed or traded in SEHK or Hong Kong Futures Exchange Limited, they will not be covered by the Investor Compensation Fund. On the other hand, since the relevant Funds are carrying out Northbound trading through securities brokers in Hong Kong but not mainland China brokers, therefore they are not protected by the China Securities Investor Protection Fund in mainland China.

Trading costs

In addition to paying trading fees and stamp duties in connection with China A-Share trading, the relevant Funds may be subject to new portfolio fees, dividend tax and tax concerned with income arising from stock transfers which are yet to be determined by the relevant authorities.

Mainland China tax consideration

The Management Company and/or Investment Manager reserve the right to provide for tax on gains of the relevant portfolio that invests in mainland China securities thus impacting the valuation of the relevant Funds. With the uncertainty of whether and how certain gains on mainland China securities are to be taxed, the possibility of the laws, regulations and practice in mainland China changing, and the possibility of taxes being applied retrospectively, any provision for taxation made by the Management Company and/or the Investment Manager may be excessive or inadequate to meet final mainland China tax liabilities on gains derived from the disposal of mainland China securities. Consequently, investors may be advantaged or disadvantaged depending upon the final outcome of how such gains will be taxed, the level of provision and when they purchased and/or sold their shares in/from the relevant portfolio.

On 14 November 2014, the Ministry of Finance, State of Administration of Taxation and CSRC jointly issued a notice in relation to the taxation rule on the Stock Connect under Caishui 2014 No.81 ("Notice No.81"). Under Notice No.81, Corporate income tax, individual income tax and business tax will be temporarily exempted on gains derived by Hong Kong and overseas investors (such as the Funds) on the trading of China A-Shares through the Stock Connect with effect from 17 November 2014. However, Hong Kong and overseas investors (such as the Funds) are required to pay tax on dividends and/or bonus shares at the rate of 10% which will be withheld and paid to the relevant authority by the listed companies.

Regulatory risk.

The CSRC Stock Connect rules are departmental regulations having legal effect in mainland China. However, the application of such rules is untested, and there is no assurance that mainland China courts will recognise such rules, e.g. in liquidation proceedings of mainland China companies.

The Stock Connect is novel in nature, and is subject to regulations promulgated by regulatory authorities and implementation rules made by the stock exchanges in mainland China and Hong Kong. Further, new regulations may be promulgated from time to time by the regulators in connection with operations and cross-border legal enforcement in connection with cross-border trades under the Stock Connect.

The regulations are untested so far and there is no certainty as to how they will be applied. Moreover, the current regulations are subject to change. There can be no assurance that the Stock Connect will not be abolished. The relevant Funds which may invest in the mainland China markets through Stock Connect may be adversely affected as a result of such changes.

Short Swing Profit Rule risk in China

Under mainland China's regulations on disclosure of interest, a portfolio may be deemed to be acting in concert with other funds and accounts managed by the Manager its affiliates and therefore may be subject to the risk that the portfolio's holdings may be required to be reported in the aggregate with the holdings of such other accounts should the aggregate holdings trigger the reporting threshold under the mainland China law, which is currently 5% of the total issued shares of a listed company. This may expose the portfolio's holdings to the public and may potentially have an adverse impact on the performance of the portfolio.

In addition, subject to the interpretation of mainland China courts and mainland China regulators, the operation of the mainland China short swing profit rule may be applicable to a portfolio's investments with the result that where the holdings of the portfolio (possibly with the holdings of other investors deemed as concert parties of the portfolio) exceed 5% of the total issued shares of a mainland China listed company, the portfolio may not reduce its holdings in such company within six months of the last purchase of shares of such company. If the portfolio violates the rule and sells any of its holdings in such company in the six-month period, it may be required by the listed company to return any profits realised from such trading to the listed company. Moreover, under mainland China civil procedures, the portfolio's assets may be frozen to the extent of the claims made by such company. The inability to sell such assets and any obligation to return profits may adversely affect the performance of the portfolio.

Smaller and Midsize Companies risk

While smaller and midsize companies may offer substantial opportunities for capital growth, they also involve substantial risks and should be considered speculative. Historically, smaller and midsize company securities have been more volatile in price than larger company securities, especially over the short term. Among the reasons for the greater price volatility are the less certain growth prospects of smaller and midsize companies, the lower degree of liquidity in the markets for such securities, and the greater sensitivity of smaller and midsize companies to changing economic conditions.

In addition, smaller and midsize companies may lack depth of management, be unable to generate funds necessary for growth or development, have limited product lines or be developing or marketing new products or services for which markets are not yet established and may never become established. Smaller and midsize companies may be particularly affected by interest rate increases, as they may find it more difficult to borrow money to continue or expand operations, or may have difficulty in repaying any loans which are floating-rate.

These risks are typically increased for securities issued by smaller companies registered or performing a significant part of their activities in developing countries and Emerging Markets, especially as the liquidity of securities issued by companies in Emerging Markets may be substantially smaller than with comparable securities in industrialised countries.

Sovereign Debt risk

Sovereign debt securities are subject to various risks in addition to those relating to debt securities and foreign securities generally, including, but not limited to, the risk that a governmental entity may be unwilling or unable to pay interest and repay principal on its sovereign debt, or otherwise meet its obligations when due because of cash flow problems, insufficient foreign reserves, the relative size of the debt service burden to the economy as a whole, the government's policy towards principal international lenders such as the International Monetary Fund, or the political considerations to which the government may be subject. Sovereign debtors also may be dependent on expected disbursements from other foreign governments or multinational agencies and the country's access to, or balance of, trade. If a sovereign debtor defaults (or threatens to default) on its sovereign debt obligations, the indebtedness may be restructured. Restructuring may include obtaining additional credit to finance outstanding obligations, reduction and rescheduling of payments of interest and principal, or negotiation of new or amended credit and security agreements. Unlike most corporate debt restructurings, the fees and expenses of financial and legal advisers to the creditors in connection with a restructuring may be borne by the holders of the sovereign debt securities instead of the sovereign entity itself. Some sovereign debtors have in the past been able to restructure their debt payments without the approval of some or all debt holders or to declare moratoria on payments, and similar occurrences may happen in the future.

In the event of a default on sovereign debt, a portfolio may have limited legal recourse against the defaulting government entity. As a sovereign entity, the issuing government may be immune from lawsuits in the event of its failure or refusal to pay the obligations when due, and any rights a portfolio may have may be restricted pursuant to the terms of applicable treaties with such sovereign entity. If a sovereign entity defaults, it may request additional time in which to pay or for further loans. There may be no legal process for collecting sovereign debt that a government does not pay or such legal process may be relatively more expensive, nor are there bankruptcy proceedings by which a portfolio may collect in whole or in part on debt issued by a sovereign entity. In certain cases, remedies must be pursued in the courts located in the country of the defaulting sovereign entity itself, which may further limit the ability to obtain recourse.

Portfolios may invest in Sovereign Debt issued by governments or government-related entities from countries referred to as Emerging Markets or Frontier Markets, which bear additional risks compared to more developed markets due to such factors as greater political and economic uncertainties, currency fluctuations, repatriation restrictions or capital controls.

Structured Notes risk

Structured notes such as credit-linked notes, equity-linked notes and similar notes involve a counterparty structuring a note whose value is intended to move in line with the underlying security specified in the note. Unlike financial derivative instruments, cash is transferred from the buyer to the seller of the note. Investment in these instruments may cause a loss if the value of the underlying security decreases. There is also a risk that the note issuer will default. Additional risks result from the fact that the documentation of such notes programmes tends to be highly customised. The liquidity of a structured note can be less than that for the underlying security, a regular bond or debt instrument and this may adversely affect either the ability to sell the position or the price at which such a sale is transacted.

Sukuk Investment Risk

Price changes in Sukuk are influenced predominantly by interest rate developments in the capital markets, which in turn are influenced by macro-economic factors. Sukuk could suffer when capital market interest rates rise, while they could increase in value when capital market interest rate fall. The price changes also depend on the term or residual time to maturity of the Sukuk. In general, Sukuk with shorter terms have less price risks than Sukuk with longer terms. However, they generally have lower returns and, because of the more frequent due dates of the securities portfolios, involve higher re-investment costs.

Sovereign Sukuk ("**Sovereign Sukuk**") are Sukuk issued or guaranteed by governments or government-related entities. Investment in Sovereign Sukuk issued or guaranteed by governments or their agencies and instrumentalities ("**governmental entities**") involves a high degree of risk. The governmental entity that controls the repayment of Sovereign Sukuk may not be able or willing to repay the principal and/or return when due in accordance with the terms of such debt due to specific factors, including, but not limited to (i) their foreign reserves, (ii) the available amount of their foreign exchange as at the date of repayment, (iii) their failure to implement political reforms, and (iv) their policy relating to the International Monetary Fund.

Sovereign Sukuk holders may also be affected by additional constraints relating to sovereign issuers which may include: (i) the unilateral rescheduling of such debt by the issuer and (ii) the limited legal recourses available against the issuer (in case of failure of delay in repayment).

Portfolios investing in Sovereign Sukuk issued by governments or government related entities from countries referred to as emerging or frontier markets bear additional risks linked to the specifics of such countries (e.g. currency fluctuations, political and economic uncertainties, repatriation restrictions, etc.) – see ‘Emerging Markets and Frontier Risk’ above.

Swap Agreements risk

Portfolios may enter into interest rate, index and currency exchange rate swap agreements for the purposes of attempting to obtain a particular desired return at a lower cost than investing directly in an instrument that yielded that desired return. Swap agreements are two-party contracts entered into primarily by institutional investors for periods ranging from a few days to more than one year. In a standard "swap" transaction, two parties agree to exchange the returns (or differential in rates of return) earned or realised on particular predetermined investments or instruments. The gross returns to be exchanged or "swapped" between the parties are calculated with respect to a "notional amount", i.e. the return on or increase in value of a particular US dollar amount invested at a particular interest rate, in a particular foreign currency, or in a "basket" of securities representing a particular index. The "notional amount" of the swap agreement is only a fictive basis on which to calculate the obligations which the parties to a swap agreement have agreed to exchange. The obligations (or rights) under a swap agreement will generally be equal only to the net amount to be paid or received under the agreement based on the relative values of the positions held by each party to the agreement (the "net amount").

Whether the use of swap agreements will be successful in furthering its investment objective will depend on the ability of the Manager to correctly predict whether certain types of investments are likely to produce greater returns than other investments. Because they are two-party contracts and because they may have terms of greater than seven (7) calendar days, swap agreements may be considered to be illiquid. Moreover, the portfolio bears the risk of loss of the amount expected to be received under a swap agreement in the event of the default or bankruptcy of a swap agreement counterparty. The main factor that determines the performance of a swap contract is the movement in the price of the underlying investment, specific interest rates, currencies and other factors used to calculate the payment due by and to the counterparty. If a swap contract requires payment by a portfolio, the latter must at all times be able to honour said payment. Moreover, if the counterparty loses its creditworthiness, the value of the swap contract entered into with this counterparty can be expected to fall, entailing potential losses for the portfolio.

Value Stocks risk

Some Funds may select stocks using a bottom-up, long-term, value-oriented approach. To the extent that markets fail to recognise their expected value, investment may underperform other stock selection approaches.

Warrants risk

A warrant is like an option, in that it gives the holder the right but not the obligation to buy an underlying security at a certain price, quantity and future time. It is unlike an option in that it is issued by the company to which it provides exposure. Because the price of warrants is low compared to the underlying exposure, they provide leverage, in a similar way to equity options. Accordingly, investments in and holding of warrants may result in increased volatility, particularly compared to holding the underlying stock directly.