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***IMPORTANT: This notice requires your immediate attention. If you have any questions about the content of this notice, you should seek independent professional advice.***

## **IMPORTANT**

### **ABF PAN ASIA BOND INDEX FUND**

*A Singapore unit trust authorized under*

*Section 286 of the Securities and Futures Act, Chapter 289 of Singapore and  
Section 104 of the Securities and Futures Ordinance (Cap.571) of Hong Kong*

**(Stock Code: 2821)**

### **NOTICE TO UNITHOLDERS**

#### **Amendments to Trust Deed, engagement in securities lending transactions by the Trust, and updates to securities lending policy**

We, as the Manager of the ABF Pan Asia Bond Index Fund (the "**Trust**"), are writing to inform you that with effect from 10 July 2018 (the "**Effective Date**"):

- (i) amendments will be made to the Trust Deed of the Trust by way of a Fourth Amending and Restating Deed (the "**Revised Trust Deed**") to amend certain securities lending requirements in Clause 15.14 of the Trust Deed, as further described below; and
- (ii) the Trust will enter into securities lending transactions and amendments will be made to the securities lending policy of the Trust, as further described below.

Unless otherwise defined in this notice, terms and expressions used in this notice shall have the same meanings ascribed to them under the prospectus of the Trust.

#### ***Amendments to the Trust Deed***

Amendments will be made to the Trust Deed of the Trust by way of a Revised Trust Deed to amend certain securities lending requirements in Clause 15.14 of the Trust Deed.

Clause 15.14 of the Trust Deed currently provides as follows:

*"15.14 The Manager may with the approval of the Trustee arrange for the Index Securities and Non-Index Securities of the Trust to be loaned through the agency of any person provided that:...*

*15.14.2 no more than 50% of any Index Security or Non-Index Security of the same issue may be lent at any one time;*

*15.14.3 subject to the Code Investment Guidelines, the collateral to be acquired in respect of any loan shall be adequate, shall in any event be of a value not less than 100% of the Value of the Index Securities and Non-Index Securities lent and shall comprise cash and Index Securities and Non-Index Securities and other high quality cash equivalent investments approved by the Trustee and with a remaining term of not more than 366 days;*

*15.14.4 any cash collateral received is invested in the form of instruments described in Clause 15.14.3 above;"*

With effect from the Effective Date, Clauses 15.14.2, 15.14.3 and 15.14.4 of the Trust Deed will be deleted in their entirety and replaced with the following wording:

*"15.14.2 at any time that any Index Securities or Non-Index Securities of the Trust are lent or proposed to be lent, the amount of such Index Securities or Non-Index Securities of the same issue that may be lent shall not exceed the lower of:*

*(a) a limit as determined by the Manager from time to time in its absolute discretion, pursuant to a mechanism as agreed between the Trustee and the Manager; and*

*(b) 50% of the aggregate market holding of such Index Securities or Non-Index Securities of that issue available for lending, as determined by a service provider appointed by the securities lending agent and approved by the Trustee;*

*15.14.3 subject to the Code Investment Guidelines, the collateral to be acquired in respect of any loan shall be adequate, shall in any event be of a value not less than 100% of the Value of the Index Securities and Non-Index Securities lent and shall comprise cash, Index Securities, Non-Index Securities and/or other high quality cash equivalent investments approved by the Trustee and with a remaining term of not more than 366 days;*

*15.14.4 any cash collateral received shall not be reinvested or shall be invested in the form of instruments described in Clause 15.14.3 above;"*

Pursuant to Clause 38.1 of the Trust Deed, the trustee of the Trust, HSBC Institutional Trust Services (Singapore) Limited (the "**Trustee**"), has certified that in its opinion the alterations, modifications or variations to the Trust Deed effected by the Revised Trust Deed as reflected in Clause 15.14 of the Revised Trust Deed are not materially prejudicial to the interest of the Trust's unitholders, do not to any material extent release the Trustee or the Manager or any other person from any liability to the Trust's unitholders and do not increase the costs and charges payable out of the Trust (other than costs incurred in altering, modifying or varying the Trust Deed).

Accordingly, such alterations, modifications or variations of the Trust Deed do not require the sanction of an extraordinary resolution of the Trust's unitholders.

The costs incurred in connection with the amendments of the Trust Deed will be borne by the Trust.

### ***Engagement in securities lending transactions by the Trust and updates to securities lending policy***

Prior to the Effective Date, the Trust does not engage in securities lending. With effect from the Effective Date, the Trust will engage in securities lending for the sole purpose of efficient portfolio management. The Trust may, for the sole purpose of efficient portfolio management, lend securities from its holdings to brokers, dealers and other financial institutions desiring to borrow securities to complete transactions on their own or their clients' behalf. The Trust may also lend securities to a potential investor wishing to place an order to create Creation/ Redemption Units if the potential investor is an eligible counterparty. These loans may not, however, exceed 10% of the NAV of the Trust, including assets derived from such lending activities. With effect from the Effective Date, the limit of any securities of the same issue that may be lent at any one time will be determined by the Manager at its absolute discretion, pursuant to a mechanism as agreed between the Trustee and the Manager. In addition, at the time that any securities are lent or proposed to be lent, the amount of securities of that issue being lent must be not more than 50% of the aggregate market holding of securities of that issue available for lending, as determined by a service provider appointed by the securities lending agent and approved by the Trustee (the "**Data Service Provider**"). Currently, the Data Service Provider is Markit Group Limited. The Data Service Provider receives data from numerous lenders to determine the amount of securities of the same issue that are available for lending (the "**Lendable Amount**"). The securities lending agent will monitor the securities of that issue lent by the Trust, and track the lending against this data to ensure that the amount of securities of that issue lent by the Trust is not more than 50% of the Lendable Amount (as determined by the data provided by the Data Service Provider). Should a passive breach of any such 50% threshold occur, the securities lending agent will issue sufficient loan recalls to borrowers to ensure the limit requirement is met.

The Trust will only lend securities to a borrower approved by the Trustee. Borrowers will be restricted to persons who satisfy the criteria for a counterparty to a securities lending agreement as required under all applicable laws and regulations (including the Code Investment Guidelines). At present, the Code Investment Guidelines require a counterparty to a securities lending agreement to amongst other things, have a minimum long-term rating of 'A' by Moody's, 'A' by Standard and Poor's, or 'A' by Fitch (including sub-categories or gradations therein).

Where any securities lending transaction has been arranged through the Manager, the Trustee or their respective Connected Persons, the relevant entity shall be entitled to retain for its own account

any fee or commission it receives on a commercial arm's length basis in connection with such lending arrangement. The Trust will receive not less than 50% of the total securities lending income derived from its securities lending activities to help offset the Trust's costs and expenses (currently 70% of the total income received from securities lending will be credited to the account of the Trust). The balance of any securities lending income will be for the account of the securities lending agent, Custodian and/or Administrator.

Securities lending transactions will be entered into through a clearing house or a financial institution which is recognised as a specialist in securities lending and acceptable to the Trustee. Currently, the securities lending agent is HSBC Bank plc.

The Trust will be able to recall the securities lent out at any time in accordance with the standard settlement time in the relevant market. As part of its securities lending transactions, the Trust will receive collateral, the value of which, during the duration of the securities lending agreement, will exceed 100% of the global valuation of the securities lent, marked to market on a daily basis. Subject to the Code Investment Guidelines, the collateral that is to be acquired in respect of securities lending shall comprise Index Securities, Non-Index Securities and/or other high quality cash equivalent investments approved by the Trustee and permitted under the Trust Deed. The Trust will only accept cash collateral in circumstances where collateral is accepted through the Euroclear SA collateral management system, and the collateral substitution process for the system requires the interstitial acceptance of cash collateral. No interest would be paid on such cash collateral, which would be held by HSBC Bank plc as banker. The Trust will not reinvest collateral received in connection with its securities lending.

HSBC Bank plc is appointed as the custodian of the collateral received with respect to the Trust's securities lending transactions. HSBC Bank plc may appoint sub-custodians (whether or not affiliated to HSBC Bank plc) to take custody of the collateral received with respect to the Trust's securities lending transactions.

Conflicts of interest may arise in connection with the securities lending activities of the Trust if the Manager, the Trustee or any of their respective Connected Persons is appointed as securities lending agent for the Trust or is a counterparty in a securities lending transaction with the Trust. The current securities lending agent of the Trust, HSBC Bank plc, is a Connected Person to the Trustee. However, the Manager does not intend to appoint itself or any of its Connected Persons as securities lending agent, or to permit itself, its Connected Persons or its related corporations (as defined in Section 4(1) of the Companies Act, Chapter 50 of Singapore) to act as counterparties in any securities lending transaction with the Trust. The Trustee shall not approve (i) any securities lending transaction where the borrower is a Connected Person to or a related corporation (as defined in Section 4(1) of the Companies Act, Chapter 50 of Singapore) of the Manager or the Trustee, or (ii) the appointment of the Manager or any of its Connected Persons as securities lending agent for the Trust. No income from securities lending accrues to the Manager. Consequently, the Manager and the Trustee consider that any conflicts of interests arising from the securities lending activities of the Trust would be sufficiently mitigated.

Unitholders should note that securities lending transactions may involve the risk that the borrowers may fail to return the securities lent out in a timely manner and the value of the collateral may fall below the value of the securities lent out. Although the Trust will receive collateral in connection with all loans of its securities, the Trust would be exposed to a risk of loss should a borrower

default on its obligation to return the borrowed securities (e.g. the loaned securities may have appreciated beyond the value of the collateral held by the Trust).

If a borrower cannot settle an obligation for the full value when it is due, the Trust's ability to meet its realization obligations and other payment commitments may be affected. A borrower may default on its obligations by becoming insolvent or otherwise by becoming unable to complete a transaction. In addition, following a borrower's default, the Trust can sell its collateral in the market to raise funds to replace the lent securities. However, the Trust will suffer a loss if the value of the collateral falls relative to the lent securities, or the value of the lent securities rises relative to the collateral due to inaccurate pricing of the collateral, adverse market movements in the collateral value, change of values of securities lent, a deterioration in the credit rating of the collateral issuer, and/or illiquidity of the market in which the collateral is traded or otherwise. In addition, delivery risk may occur when (i) securities are lent but collateral is not received at the same time or prior to the loan, or (ii) collateral is returned but the loan is not received. The Trust would also be subject to operational risk such as delay or failure of settlement, where the Custodian or lending agent does not administer the transaction as agreed. This includes the failure to mark to market collateralization levels, call for additional margin, or to return excess margin and to post corporate actions and income including all economic benefits of ownership.<sup>1</sup>

The conduct of any securities lending by the Trust shall be for the sole purpose of efficient portfolio management. The Trustee and the Manager consider the conduct of securities lending by the Trust to be in the overall best interest of the Trust's unitholders. The undertaking of securities lending will generate additional income for the Trust with minimal increase in risk to the Trust, and thus is beneficial to the Trust. The Trust's engagement in securities lending transactions will continue to be in line with the investment objectives and policies of the Trust set out in the Prospectus.

Given the likely level and value of securities lending transactions as an overall proportion of the net asset value of the Trust, and the collateral and risk management policies being put in place, the Manager believes that there will be no material change in the overall risk profile of the Trust as a result of the Trust engaging in securities lending transactions. The Trust will continue to be managed within the overall risk profile as disclosed in the Prospectus.

As a result of the Trust proceeding to engaging in securities lending transactions, (a) other than entering into such transactions and related agreements, there will be no change in the operation and/or manner in which the Trust is being managed, and (b) other than transaction costs associated with such transactions and related agreements, there will be no change in the fee structure, the fee

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<sup>1</sup> The securities lending agent provides borrower default protection to mitigate the risks of borrowers' default. In the event of a borrower default, the securities lending agent, HSBC Bank plc, shall take certain actions which include (i) the purchase of equivalent securities equal to the number of the unreturned loaned securities, to the extent that such equivalent securities are available on the market, (ii) performance of the relevant defaulting borrower's obligations (including redelivery of equivalent securities) in respect of all loans affected by such borrower's default as if the default had not occurred. If the securities lending agent is unable, despite using its best endeavours, to redeliver the equivalent securities as a result of the unavailability of such equivalent securities on the market, the securities lending agent shall redeliver any equivalent securities that it is able to obtain and shall credit to an account nominated by the Trustee a sum of money representing the value of the remaining equivalent securities that it is not able to obtain, on a pro-rata basis based on the relevant value or (default) market value of the remaining equivalent securities, and the value of all distributions on the loaned securities for the relevant record dates which occur before the date on which the securities lending agent starts to purchase the aforementioned equivalent securities.

level or cost in managing the Trust. The expenses arising as a result of the above changes will be borne by the Trust.

### ***Offering Documents***

The Revised Trust Deed, a supplementary prospectus for the Trust, a revised product highlights sheet for the Trust and a revised product key facts statement of the Trust with the relevant above-mentioned changes incorporated will be available from the Effective Date at [www.abf-paif.com](http://www.abf-paif.com)<sup>2</sup>, and for inspection during normal business hours at the offices of the Manager at 68/F Two International Finance Centre, 8 Finance Street, Central, Hong Kong or the Receiving Agent (i.e. HSBC Institutional Trust Services (Asia) Limited) at 6/F, Tower 1, HSBC Centre, 1 Sham Mong Road, Kowloon, Hong Kong.

Investors who have any questions concerning the Trust may contact the Manager at telephone number +65 6826 7555 in Singapore and +852 2103 0100 in Hong Kong.

**State Street Global Advisors Singapore Limited**

**Manager**

26 June 2018



*The Manager accepts full responsibility for the accuracy of the information contained in this notice as at the date of publication, and confirms, having made all reasonable enquiries, that to the best of its knowledge and belief, there are no other facts the omission of which would make any statement in this notice misleading.*

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<sup>2</sup> The above website has not been reviewed by the Securities and Futures Commission.