

# Investment to Receive Payoffs as Incremental Returns Benefiting from both Bull and Bear Market Conditions in China

## กองทุนเปิด ยูโอบีแอดแอสเซต มานีเจจันท์ ไชน่า อีควิตี้ คอมเพล็กซ์ รีเทิร์น ฟันด์ 1Y2

United China Equity Complex Return Fund 1Y2 (UCEQC1Y2)

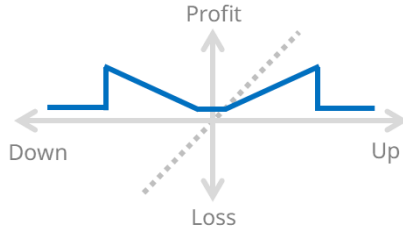
IPO 25 -31 May 2023

Investors cannot redeem these Investment Units during the period of not more than 1 year. Therefore, if there are adverse factors impacting this investment, investors may be at risk of a substantial loss.

Investors should seek additional advice from the business operator prior to investing. Investment in this Fund involves high risk or is complex which is different from investment in general funds

Although investors have prior experience in investing or transacting equity products but they should understand the specific risks and conditions of this Fund and seek additional advice from the Management Company or Sale or Redemption Supporter before making investment decisions.

Why invest in the United China Equity Complex Return Fund 1Y2?



**We Believe that the Chinese Stock Market will likely Move Sideways**

Even though China’s economy is recovering well due to domestic consumption after the lifting of the Zero COVID policy at the beginning of 2023. However, there are risks of recession of major trade economies of the world that could affect the external demands thereby putting pressure on China’s economy.

**Double Knock Out Payoff that Creates Opportunity for Gain both Bull and Bear Market Conditions\***

Investment for the opportunity to receive Payoff from incremental gains both when Xtrackers Harvest CSI300 China A-Shares ETF is on an uptrend or downtrend.

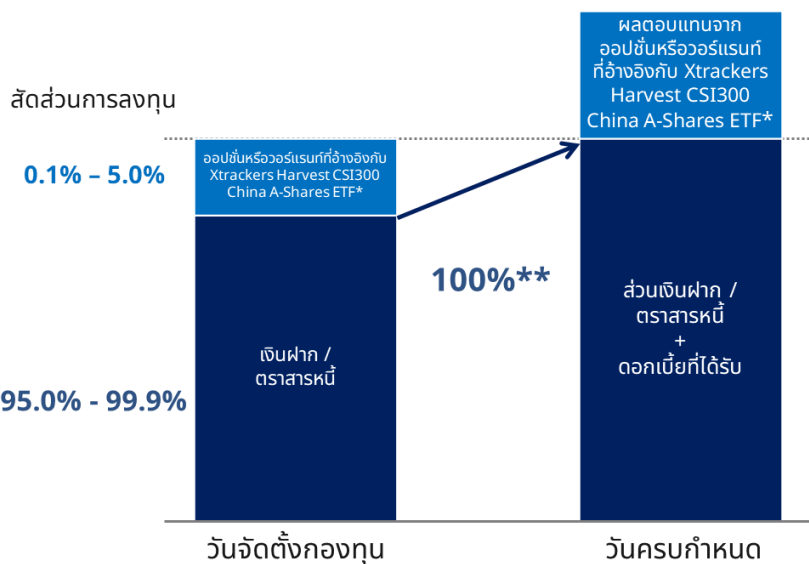
**Investment to Reduce the Risk of Loss of Principal Investment\*\***

The Fund will invest in government bonds and/or deposits or equivalent instruments and/or onshore debt instruments with investment grade and above credit ratings.

\* Investment to receive incremental gains through investment in Options or Warrants which the prices of Options or Warrants depend on the mutual agreement between the counterparties. The Fund still has a default risk from the default of the issuers of Options or Warrants/ counterparties which could result in the investors not receiving returns from such Options or Warrants. \*\*The Fund still has default risk from the default of the issuers of instruments/deposits which could result in the investors not receiving the full amount of their principal investment.

Source UOBAM as of 18 May 2023

Example of Investment Structure of the Fund



**Investment for the Opportunity of Incremental Gains**

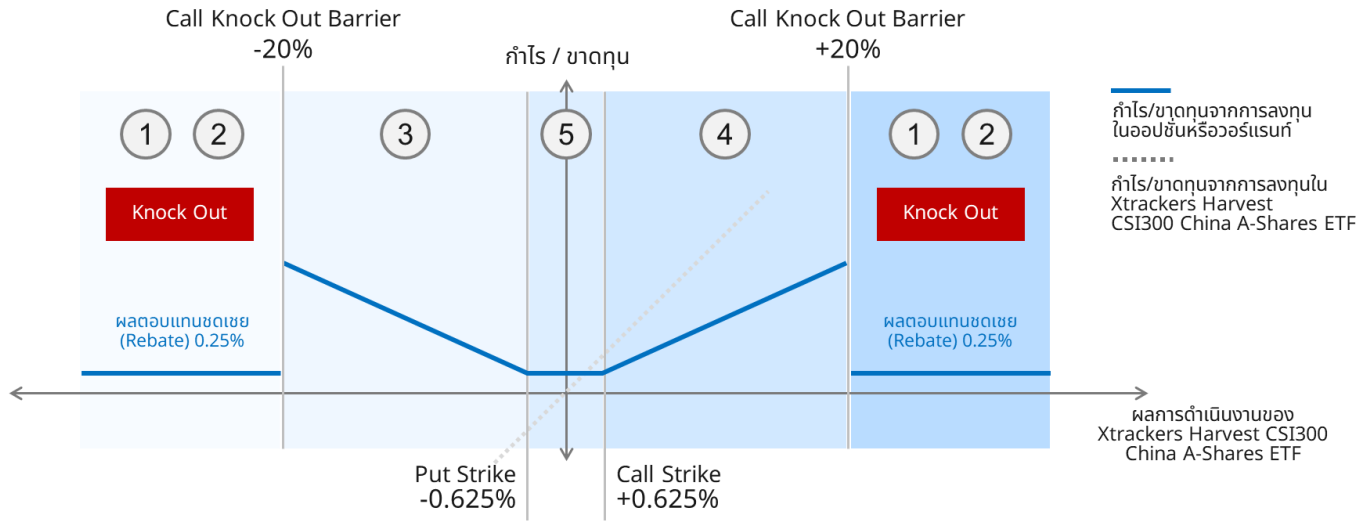
The Fund will set aside approximately 0.1% - 5.0% of its NAV to invest in Derivatives, Options or Warrants that pay returns tracked to the return of Xtrackers Harvest CSI300 China A-Shares ETF which the Options or Warrants are issued by offshore financial institutions in accordance with the Prospectus.

**Investment to Mitigate the Risk of Principal Loss**

The Fund will invest in debt instruments and/or deposits and/or instruments equivalent to deposit, both onshore and offshore, which will be invested only once totaling approximately 95.0% - 99.9% of its NAV with the aim for this portion to grow to 100% of the NAV (average offshore investment is not more than 79% of the NAV).

\*\* Issued by offshore financial institutions or offshore juristic persons. The Fund invests to receive incremental gains through investment in Options or Warrants which the prices of Options or Warrants depend on the mutual agreement between the counterparties. The Fund still has a default risk from the default of the issuers of Options or Warrants/ counterparties which could result in the investors not receiving returns from such Options or Warrants. \*\*The Fund still has default risk from the default of the issuers of instruments/deposits which could result in the investors not receiving the full amount of their principal investment.

Payoff Diagram from investment in Options and Warrants\*



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Example of Expected Returns from Investment (Assuming the Exchange Rates are unchanged)

Calculation of expected return assuming the principal amount of Baht 100,000,000, underlying assets (Xtrackers Harvest China A-Shres ETF) as of the commencement date of contract of 30.00 points, Participation Rate of 40%, Rebate Rate of 0.25%, Knock-Out Barrier of -20%/ +20% and Strike of +/- 0.625%

Case	Condition	Principal (THB) (1)	Compensation Return/ Return form Options/ Warrants (Baht) (2)	Total of Principal Amount and Returns at Maturity of Project (Baht)** (1)+(2)
1 Knock Out	Price of underlying assets as of any business day during the contractual period (prior to the date of consideration of underlying assets) <u>reduced more than 20%</u> or <u>increased more than 20%</u> when compared to the price as of the commencement date of contract.	100,000,000	0.25% x 100,000,000 = 250,000	100,250,000 (or a profit of 0.25%)
2 Knock Out	Price of underlying assets as of the date of consideration of underlying assets <u>reduced more than 20%</u> or <u>increased more than 20%</u> when compared to the price as of the commencement date of contract.	100,000,000	0.25% x 100,000,000 = 250,000	100,250,000 (or a profit of 0.25%)
3	Price of underlying assets as of the date of consideration of underlying assets <u>reduced not more than 20%</u> when compared to the price as of the commencement date of contract (assuming the price of Xtrackers Harvest China A-Shares ETF increased 10%)	100,000,000	40% x  [25.50/30.00] - 1  x 100,000,000 = 6,000,000	106,000,000 (or a profit of 6.00%)
4	Price of underlying assets as of the date of consideration of underlying assets <u>reduced not more than 20%</u> when compared to the price as of the commencement date of contract (assuming the price of Xtrackers Harvest China A-Shares ETF increased 15%)	100,000,000	40% x ([33.00/30.00] - 1) x 100,000,000 = 4,000,000	104,000,000 (or a profit of 4.00%)
5	Price of underlying assets as of the date of consideration of underlying assets reduced/ increased more than 0.6250% from the commencement date of contract.	100,000,000	0.25% x 100,000,000 = 250,000	100,250,000 (or a profit of 0.25%)

Note: The principal and return figures are for illustrative purposes only, they do not represent a guarantee that the investors will receive the amounts shown. \*\* The principal and return amounts shown are amounts after deduction of fees charged to the Fund but exclude Front-end Fee charged to the Unitholders. Returns in Baht currency will fluctuate according to the USD exchange rate.

### Outlook of Investment in Chinese Equities and the 3 Significant Risks

#### Consumers increase spending on services<sup>1</sup>

- The number of trips of Chinese tourists during the Labor Day long-weekend increased over 19.1% from pre-COVID time.
- However, the level of spending is still close to pre-COVID time, higher only by 0.7%. We believe that the strength and continuation of consumption growth will depend on the consumer confidence and income growth which shall be closely monitored.

#### China's factories struggle in further sign of imbalance<sup>2</sup>

- Caixin Manufacturing PMI Index returned to contraction again in April which differed from the service sector that recovered well since domestic consumption leaned more towards the service sector since the lifting of the Zero Covid policy.
- As well as the pressure from reduced external demands from the concern over recession of developed markets.

#### Will China's real estate recession end?<sup>3</sup>

- Although the GDP growth in Q1/2023 of the real estate sector grew by +1.3% YoY which is the first positive number since Q2/2021 during government control of the real estate sector.
- However, we need to see whether the real estate sector will continue to recover or not since the property investment numbers in Q1/2023 were still contracting.

Source: UOBAM, Bloomberg Articles (1) China Holiday Travel Exceeds Pre-Covid Level in Boost to Economy as of 3 May 2023, (2) China Two-Speed Economic Recovery Fuels Concerns on Outlook as of 4 May 2023, (3) China's Real Estate Recession Ends With First Growth in Over a Year as of 19 April 2023

### We believe that CSI300 Index will gradually move sideways up along with the recovery of China's Economy

Uneven Recovery vs Earnings Outlook

- Although China's economy recovered well in Q1/2023 expanding more than expected, however, such recovery was mainly driven by consumption after the Zero Covid policy was lifted at the beginning of the year while the manufacturing sector gives a different picture. Manufacture volume contracted due to reduced external demands from concern over the slowing of major economies like the USA.
- (+) When considering the EPS of CSI300 Index, it was found that it had already taken in the opening of the country factor, consumption remains the driving factor of the EPS growth but will be gradual. The government seems to be continuing the stimulus measures.
- (-) However, we recommend monitoring of the income growth and consumer confidence that will be the factors supporting stable economic growth while the manufacturing sector remains fragile and it will be the main factor for revising the profits of listed companies.

Geopolitical Risk vs P/E Multiple

- We believe that the price of CSI300 Index has already taken in the factor on economic recovery from the opening of the country at the beginning of the year and is trading at a suitable level slightly lower than the 5-year average.
- (+) The outlook of inflation in China is still at a low level, leaving room for the PBoC to adjust its monetary policies. It is expected that the PBoC will maintain the current interest rate and may reduce it if necessary which could result in a P/E expansion.
- (-) However, geopolitical risk could cause foreign investors to reduce their A-Share holdings or in other words, foreign investors want higher risk premiums or the market is unable to trade at high P/E ratios as it should be.

Outlook of CSI300 in the next 12 months

- We believe that the price of CSI300 Index will gradually move sideways up along with the economic recovery but may not be as fast as when China first opened up the country which there could be an upside from the adjustment of profit projection again but would be limited since the manufacturing sector is still fragile.
- The P/E level is expected to be similar to the present level, even though the monetary policy of PBoC is on a relaxation trend which will help the P/E to trade at a higher level but the geopolitical risk could put a pressure on the market preventing it from trading at higher P/E levels than it should be.

### Past 10 Months' Performance (approximate) of the Underlying Assets (Xtrackers Harvest CSI300 China A-Shares ETF)

Period	Return (Annualized)	Risk (Annualized)
1Y	-20.75%	25.91%
3Y	1.87%	26.57%
5Y	-3.15%	26.48%
Since Inception (7/11/2013)	1.53%	30.09%



Past performance/comparison of performances of related equity products are not a guarantee of future performances

Source : Bloomberg as of 24 April 2023

## Fund Detail

## Investment Policy

- The Fund has an investment policy to invest in debt instruments and/or deposits, both onshore and offshore, such as Bills of Exchange of commercial banks, deposit in commercial banks and debt instruments issued by private companies by investing in investment grade instruments and may invest in CIS units of funds that invest fully in securities or assets related to debt instruments totaling approximately 95.00% to 99.90% of the Fund's NAV. The target is to have this portion of investment grow to 100% of the Fund's NAV. The Fund will invest offshore averaged in an accounting period not more than 79% of the Fund's NAV on the portion that invests in offshore debt instruments. The Fund will invest in Derivatives for full FX hedging. However, in unusual situations, the Fund may consider hedging depending on the discretion of the Fund Managers and may adjust its strategy relating to such Derivatives in order to achieve the investment objective.
- The Fund will allocate approximately 0.10% to 5.00% of its NAV to invest in Derivatives including Warrants or Options with returns that tract the underlying prices of Xtrackers Harvest CSI300 China A-Shares ETF issued by offshore financial institutions or offshore juristic persons that have invest grade credit rating in accordance with the conditions for making payments of return in order to allow investors to seek incremental returns from the changes in the price of Xtrackers Harvest CSI300 China A-Shares ETF. The notional amounts of the Derivatives invested by the Fund are approximately or equal to the NAV as of the registration date and in USD notional amounts or other currencies as agreed. Therefore, the Fund will receive returns in USD or other currencies which the Management Company will notify the types of Derivatives, issuers of Derivatives in advance as well as the currencies that the Fund will invest and receive the returns to the Unitholders via the Prospectus before the IPO. The Fund may invest or possess Derivatives for Efficient Portfolio Management and may invest in Derivatives for FX hedging depending on the discretion of the Fund Managers that is appropriate to each situation. The use of hedging tool may have a cost for entering into hedging transactions which could reduce the overall return of the Fund from the increased cost.

Fund Type	Mixed fund
Type of Investment	Buy & hold fund/ complex or high risk fund/ fund with onshore and offshore risk
Project Value	Baht 2,000 million and may additionally offer but not more than 15% of the Fund Project
Project Term	Not less than 11 months but not more than 1 year 1 month
Risk Level	5
Benchmark	None
FX Hedging	Part 1: Invest to mitigate the risk of principal loss, >> In case of offshore investment, the Fund has full F/X hedging (in case of unusual situation, the Fund may consider hedging depending on the discretion of the Fund Managers).  Part 2: Invest to generate incremental returns >> Depending on the discretion of the Fund Managers.
Dividend Policy	None
Min Investment	None
Subscription	Only once during the IPO period from 25-31 May 2023 from 8.30 - 15.30 hours.
Redemption	<u>Auto-redemption</u> The Management Company will perform Auto-redemption not less than 2 business days prior to the end of the Fund Project which it will use the redemption price as of the Auto-redemption date. On the Auto-redemption date, the Management Company will transfer money to the deposit accounts of the Unitholders as notified to the Management Company which it will later notify the date of end of Fund Project on its website.
Settlement	Within 5 business days from the date of acceptance of Auto-redemption.
<b>Fees Charged to the Unitholders</b>	<b>According to the Prospectus (% of the Value of Investment Units)</b>
ค่าธรรมเนียมการขาย* (Front-end fee)	Not more than 2.00% (Currently at 1.00%)
ค่าธรรมเนียมการรับซื้อคืน* (Back-end fee)	None
ค่าธรรมเนียมการสับเปลี่ยนเข้า* (Switch-in fee)	Not more than 2.00% (Currently at 1.00%)
ค่าธรรมเนียมการสับเปลี่ยนออก* (Switch-out fee)	None
<b>Fees Charged to the Fund</b>	<b>According to the Prospectus (% of the NAV)</b>
ค่าธรรมเนียมการจัดการ (Management fee)	Not more than 1.07% per annum (Currently at 0.4280% per annum**)
ค่าธรรมเนียมผู้ดูแลผลประโยชน์ (Trustee fee)	Not more than 0.08025% per annum (Currently at 0.0321% per annum**)
ค่าธรรมเนียมนายทะเบียน (Registrar fee)	Not more than 0.4280% per annum (Currently at 0.1070% per annum)
ค่าธรรมเนียมอื่นๆ (Others fee)	Not more than 3.77175% per annum Which the Fund Set-up Fee shall not be more than 1.07000% per annum, currently waived.

\* The Management Company reserves the right to charge such fees to each group of subscribers or Unitholders differently which it will notify the details of the principle for charging such fees by posting at the office of the Management Company and/or the Sale and Redemption Supporter (if any) and have such information available on its website. \*\* The abovementioned fees are inclusive of VAT (if any).

## Significant Risk Factors

1. Market Risk – The risk from the volatility of the prices of securities invested by the Fund due to changes to the economic, social and political situations which are uncontrollable factors.

The Fund has investment in Options or Warrants with underlying assets that invest in Chinese equities thus it has emerging market exposure that tend to be more volatile than developed markets and the value of such instruments or securities may rapidly increase or decrease. In some instances, such assets may have lower liquidity or reduced value which could limit the ability of the Fund Managers to sell all or part of the instruments invested. Under the law of the Peoples' Republic of China (excluding Hong Kong, Macau and Taiwan) there are limitations to the number of shares a foreign investor (including the Fund) will be allowed to invest any company listed on the Mainland China Stock Exchange or the National Equities Exchange and Quotations (NEEQ) which could be a limitation to the investment that covers shares issued and offered onshore and offshore and whether the investment is made through the QFI quota or the Stock Connect project or other channels of investment. Foreign investors can invest in the onshore Chinese stock markets through the quota of the QFI (Qualified Foreign Investor) approved by and in accordance with the regulations of the Chinese authorities which the Fund may still be impacted from the regulations and limitations such as investment limitation which could affect the liquidity and/or performance of the Fund.

2. Business Risk

Refers to the risk from the situation of the related businesses and industries that could impact the operations of the issuers of the instruments.

3. Foreign Exchange Risk

Refers to the risk from the changes to the foreign exchange rates affecting the value of investment units. For example, if the Fund invests in USD during the time when the Baht is weak but sells during the time when the Baht is strong, the Fund will receive less amount money in terms of Baht. On the other hand, if the Fund invests during the time when the Baht is strong and sells during the time when the Baht is weak, it may receive higher return. Therefore, mitigation of foreign exchange risk is an important tool for risk management.

4. Derivatives Risk

Refers to the risk from the prices of the underlying assets moving in the opposite direction from the anticipated direction which could be due to different factors such as interest rate or other relevant economic factors resulting in a significant change to the price of derivatives.

5. Repatriation Risk

Refers to the risk arising from the internal changes of the countries that the Fund invested such as changes to the politics, requirements, regulations or policies of the governments for the purpose of public administration as well as other causes that may affect the ability to make repayment according to specified times and may cause the Fund to have risk from SWAP and/or Forward contracts which will affect the returns that the Fund will receive.

6. Credit Risk

Refers to the risk arising from the performance and financial position of the issuing companies of debt instruments as well as their ability to repay both the principal and interest.

7. Country and Political Risk

Refers to the risk arising from the economic, social and political stabilities as well as the efficiency of the organizations related to the money market and capital market including legal and financial transaction limitations of the country that the Master Fund invests. Such risk may result in the volatility of the prices of instruments invested by the Fund, liquidity, market condition, inflation or exchange rate relating to such country which may result in the Fund not receiving the expected returns.

- Investment in China may involve the following specific risks: 1) The risk from intervention in companies from the Chinese government including the halting of trading of securities of such companies which could affect their liquidity and cause price vitality; 2) The risk from currency revaluation, for example, the devaluation of CNY currency could cause market volatility.

8. Interest Rate Risk

Refers to the risk from the fluctuation of interest rate which affects the value of investment of the Master Fund. When the long-term interest rates rise, the values of debt instruments tend reduce; on the other hand, when the long-term interest rates drop, the values of debt instruments tend to increase.

9. Early Termination Risk

Refers to the risk that the issuers of Options or Warrants have the right to terminate the contracts prior to the maturity dates which may result in the investors not receiving the expected level of return.

## Warning

- Investors should understand the characteristics of products, conditions, returns and risk before making investment decisions.
- Past performance/comparison of performances of related equity products are not a guarantee of future performances.
- Investment in this Fund involves high risk or is complex since it invests in Derivatives which is a complex investment and has complex payment of return that is different from investment in general funds. Even though investors have prior experience in investing or transacting equity products but they should understand the specific risks and conditions of this fund and seek additional advice from the Management Company or Sale or Redemption support before making investment decisions.
- Investors should seek additional advice from the business operator prior to investing.
- Investors cannot redeem these Investment Units in the period not more than 1 year, therefore, if there are adverse factors impacting this investment, investors may be at risk of substantial loss.
- Investment in a fund that invests offshore has a foreign exchange risk. For part 1 of the investment, the Fund aims to fully hedge against the exchange rate, however, in case of an unusual situation, the Fund may hedge depending on the discretion of the Fund Managers. For the investment in part 2, the Fund has a policy to hedge depending on the discretion of the Fund Managers.
- Investment in a fund that invests offshore has a foreign exchange risk thus investors may receive less money than their initial investments.
- Investment in equity products involves high risk and complexity which has different underlying factors than direct investment in underlying factors thus such equity products may have different volatility level than the prices of the underlying factors.
- The Fund may not receive the principal and returns as anticipated if the issuers of instruments or banks that the Fund invested are unable to repay the principal and interest as well as other types of returns as agreed.
- This Fund invests offshore thus has a risk that the authorities of the country invested may issue measures under unusual situations making the Fund being unable to return the money back to the country which could result in the investors not receiving money back according to the specified time.

## Disclaimer

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