GOVERNMENT BONDS & TREASURY BILLS

UBP Generic Product Information Sheet | May 2024

For Professional Investors only in Hong Kong and Accredited Investors (in respect of accounts opted-in to be treated as Accredited Investors) and Institutional Investors in Singapore only

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INTRODUCTION

Government bonds and treasury bills (T-bill) are debt instruments issued by a government. Treasury Bills (T-Bills) are debt securities that mature in a year or less and Bonds are with maturity of longer than 1 year. Government debt is money owed by any level of government and is backed by the full faith and credit of the government. Governments usually issue debt securities to raise the money needed to pay off maturing debt and finance their operating and development expenditure.

Generally, both Government Bonds and T-bills are issued in the country's domestic currency. Before investing in government bonds or T-Bills, investors should assess the relevant risks associated with the country such as country risk, political risk, inflation risk, interest rate risk, and currency risk.

KEY FEATURES

Feature	Government Bonds	T-bill
Description	Longer-term debt securities	Short-term securities that mature in one year or less from their issue date
Tenor	2, 5, 7, 10, 15 and 20 years	3 months and 12 months
Interest payment/Coupon	Government bonds generally pay a fixed rate of interest (also known as coupon) semi-annually, for the life of the securities and the face (par) values on redemption on maturity.	T-bills do not pay coupons. Instead, T-bills are bought and sold at discount, i.e. price less than their face (par) value. Therefore, the interest earned on the T-bill is the difference between the purchase price of the security and its face (par) value.
Illustrations	If an investor purchases a Government Bond with face value $1,000 and coupon rate of 3.8% (paid semi-annually), he would get $38 each year in the form of 2 coupon payments (i.e. $19 every 6 months) until the bond matures. Assuming the Investor holds the bond till its maturity, he would receive the $1,000 face value.	For example, if an Investor purchase a 1- year T-Bill for $98 with a face value of $100, the interest earned would be $2.

RISK DISCLOSURE

KEY RISKS

The following is not an exhaustive list of all the risks associated with an investment in Government Bonds and Treasury Bills. Investors should carefully review the final offering documentation relating to the product that you wish to purchase, including the description of risk factors contained therein.

Credit risk/Default Risk

Default risk, also known as credit risk, refers to the risk that the issuer of a bond may default (i.e., will be unable to make timely principal and interest payments on the issue). Default risk is often gauged by the risk rating assigned by the rating companies. Because of this risk, bonds with default risk trade in the market at a price that is lower than comparable US Treasury securities, which are generally considered free of default risk.

Investors in Government Bonds and Treasury Bills rely on the creditworthiness of the issuing Government to fulfill its debt obligations. Governments' ability or willingness to make payments of principal and interest could be impacted by adverse economic condition and change of political situation. In the worst case scenario, Investors could lose all of their initial investment.

Liquidity risk

Even though bondholders may sell bonds in the secondary market, the liquidity of such secondary market could be low as there is no assurance at which a bid price would be made. Investors may need to hold the bonds until maturity.

Market risk

Before maturity, the value of the instrument will be influenced not only by the level of the issuer's credit risk, but also by other factors including interest rates, volatility, inflation and time-to-maturity. Therefore, the instrument may trade considerably below 100% (theoretical par value) during its lifetime.

Interest Rate risk

The price of a bond will generally move in the opposite direction of interest rates. If interest rates rise, the price of a bond will fall. Conversely, as interest rates fall, the price of a bond will rise. The actual sensitivity to interest rates depends on the various characteristics of the issue. Some bonds with special feature - such as perpetuity feature - are highly sensitive to interest rate movements.

Currency risk

The denominated currency of the bond may not be freely convertible and its conversion through banks in Asia may be subject to certain restrictions. Should the relevant country tighten exchange controls, the liquidity of the relevant currency will be affected, and investors may be exposed to higher risk. This may extend to any bonds denominated in the relevant currency. As such, investors should be prepared to hold the bond until maturity. In addition, foreign exchange risks may apply in the case of cross-currency convertible bonds.

Event Risk

A corporate event such as a merger or takeover may lower the credit rating of the bond issuer. Should any corporate restructuring be financed by the issuance of a large amount of new debt, the issuer's ability to pay off existing bonds will be weakened.

Inflation Risk

Return on bond investments lose effective economic purchasing power when prices rise. Inflation is therefore a serious concern for those who need to rely on the regular income from bonds.

PRODUCT RISK CLASSIFICATION FRAMEWORK
The risk level of the product can be significantly higher if the investment is made using leverage, or not held till maturity.

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INTRODUCTION

A Certificate of Deposit (CD) is a certificate issued by a depository institution. It evidences the liabilities of the Issuer with respect to the certificate face amount which will be returned to the investor at maturity together with the interest earned (if any) provided the Issuer does not default.

Certificates of Deposit is not a protected deposit and is not protected by the Deposit Protection Scheme in Hong Kong or equivalent deposit protection program in Singapore.

KEY FEATURES

Common features:

- **Issuance:** CDs are issued under a Certificate of Deposit programme and may be issued in any freely traded currency. In general (subject to relevant country laws), CDs have the same seniority ranking as unsecured and unsubordinated obligations of the issuing entity.
- **Maturity:** The typical maturity of CDs range from one month to five years.
- **Interest:** CDs may be issued as interest bearing instruments where principal and interest are paid periodically or at maturity (see Illustration), or at a discount to par. For a discount CD, the investor buys the CD at a discount and receives par at maturity.
- **Day-count basis:** Based on the denomination currency of the note, CDs might use various day-count basis. Investors need to refer to the terms and conditions for the actual day-count fraction used for each individual certificate.
- **Early Withdrawal Penalty:** Unless the CD is issued in a negotiable form which allows the initial investor to sell the CD in the open market before maturity date (subject to market conditions), otherwise, for non-negotiable CD, there would be penalty for any early withdrawal of investment prior to maturity.

Illustration – Interest Bearing CD

- Calculation Proceeds for a 6-month CD with Coupon at Maturity (for illustration only)
- An investor buys USD 20 million of a 6-month CD with 183 days to maturity with coupon of 1.50% p.a. Principal plus interest are paid at maturity.
- Interest at Maturity = N x C x n/day-count, where N is the nominal amount, n the total number of days, and C is the coupon per annum.
- Interest at Maturity = USD20,000,000 x 1.50% x 183/360, Interest at Maturity = USD152,499.99

Benefits of CDs

Provided the Issuer does not default during the tenor of the CD, CD generally offers investors the opportunity of receiving higher yields as compared to general interest-bearing checking and savings account.

RISK DISCLOSURE

KEY RISKS

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Product Specific Risks

CDs are only principal-return at maturity and are subject to the Issuer's credit risk.

Credit Risk/Default Risk

Default risk, also known as credit risk, refers to the risk that the issuer of a bond may default (i.e., will be unable to make timely principal and interest payments on the issue). Default risk is often gauged by the risk rating assigned by the rating companies. Because of this risk, bonds with default risk trade in the market at a price that is lower than comparable US Treasury securities, which are generally considered free of default risk.

Investors are fully exposed to credit and default risk as the Issuer may fail to fulfill the payment obligation on the interest or principle as scheduled. Also, **CD is not a protected deposit and is not protected by the deposit protection scheme in Hong Kong and Singapore.**

Liquidity risk

Even though investors may sell negotiable form CDs in the secondary market, the liquidity of such secondary market is likely to be low and investor may need to hold the investment until maturity.

Market Risk

Before maturity, the value of the instrument will be influenced not only by the level of the issuer's credit risk, but also by other factors including interest rates, volatility, inflation and time-to-maturity. Therefore, the instrument may trade considerably below 100% (theoretical par value) during its lifetime.

Currency Risk

The denominated currency of the bond/CD may not be freely convertible and its conversion through banks in Asia may be subject to certain restrictions. Should the relevant country tighten exchange controls, the liquidity of the relevant currency will be affected, and investors may be exposed to higher risk. This may extend to any bonds denominated in the relevant currency. As such, investors should be prepared to hold the bond until maturity. In addition, foreign exchange risks may apply in the case of cross-currency convertible bonds.

Interest Rate Risk

The price of a bond will generally move in the opposite direction of interest rates. If interest rates rise, the price of a bond will fall. Conversely, as interest rates fall, the price of a bond will rise. The actual sensitivity to interest rates depends on the various characteristics of the issue. Some bonds with special feature - such as perpetuity feature - are highly sensitive to interest rate movements.

Event Risk

A corporate event such as a merger or takeover may lower the credit rating of the bond issuer. Should any corporate restructuring be financed by the issuance of a large amount of new debt, the issuer's ability to pay off existing bonds will be weakened.

Inflation Risk

Return on bond investments lose effective economic purchasing power when prices rise. Inflation is therefore a serious concern for those who need to rely on the regular income from bonds.

PRODUCT RISK CLASSIFICATION
The risk level of the product can be significantly higher if the investment is made using leverage, or not held till maturity.

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BONDS (INCLUDING COMPLEX BONDS)

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INTRODUCTION

A bond (also known as bills or notes) is a debt instrument under which the Issuer (also known as the debtor or borrower) owes the bondholders (also known as lender) a debt and agreed to repay the principal and interest on specified maturity dates.

KEY FEATURES

Common characteristics:

The most important characteristics of a bond are:

- Issuer
- Principal
- Coupon
- Term or Maturity

- Guarantor
- Covenant

Issuer

Issuer is also known as the debtor or borrower. Common Issuer of bonds include corporations, governments, and supranational organization

Principal

The principal of a bond, also known as face value or par value, is amount that is repaid back to the bondholder at maturity.

Coupon

Coupon refers to the interest on the principal which the Issuer agreed to pay to the bondholder. The coupon rate and payment frequency is defined at the issuance of the bond

- Coupon Frequency: Coupon payment are normally made regularly, e.g. annually, semi-annually, quarterly
- Fixed and Floating Rate Coupon: Fixed coupon are paid out on a regular basis can be anything from 0% (Zero-Coupon Bond) or greater. The primary advantage is that the bond's future cash flows are known. However, the investor will be subject to the bond price changes arising from any fluctuation in market interest rates. Floating rate coupons are paid out periodically based on the underlying reference rate, e.g. Alternative Reference Rates (ARRs) such as USD Secured Overnight Financing Rate (SOFR), plus a credit spread.
- Zero Coupon Bond: A zero-coupon bond does not have coupon payment. It is traded at discount and investors would collect full face value of the bond at maturity.

Term or Maturity

Term refers to the period (generally in years) over which the Issuer has promised to meet its obligations under the bond. Maturity is the date on which the life of a bond ends. Bonds that do not have a fixed maturity date are classified as perpetual bonds.

Guarantor

A guarantor is a third party whom agrees to repay the principal and/or interest to the bondholder if the Issuer defaults.

Covenant

All bond covenants are legal binding contractual provisions specified in bond indentures. They detail some actions that Issuers are required to perform as well as some conditions which are prohibitive on the Issuer. It is enforceable throughout the term of the bond. Examples of bond covenants include restricting Issuers to acquire additional debt or to make new capital investment, and requiring the Issuers to provide audited financial statements to bondholders, etc.

COMMON BOND CATEGORIES

Government and Corporate Bonds

Government Bonds are issued by the government. Since there is a relatively lower chance of default by a government, these bonds are usually considered lower risk investments. Corporate bonds are issued by companies or their subsidiaries to finance their business activities.

Perpetual bonds

Perpetual bonds do not have a fixed maturity date. Perpetual debts could have either cumulative or non-cumulative coupons. For cumulative coupon, interest accrues if payments are missed. For non-cumulative coupon, if payments are missed, there would be no accrual of interest and the cash flow is essentially lost.

Senior and Junior bonds

Bonds can also be classified as Senior (also known as Unsubordinated) or Junior (as known as Subordinated) bonds according to their repayment priority against other debt in the case of default. In liquidation, senior bondholders are the first to be paid, and subordinated bondholders are paid only if there are remaining funds left. As the risk is higher for subordinated debt, and therefore they carry lower credit ratings than senior bonds.

Secured and Unsecured bonds

Secured bonds are debts that are collateralized by an asset which typically can be property, equipment, or an income stream such as mortgage payment. Unsecured bonds are not backed by a specific asset. Bondholders of unsecured debts would have no claim on specific collateral if the Issuer defaults.

Investment Grade and Non-Investment Grade (High Yield) bonds

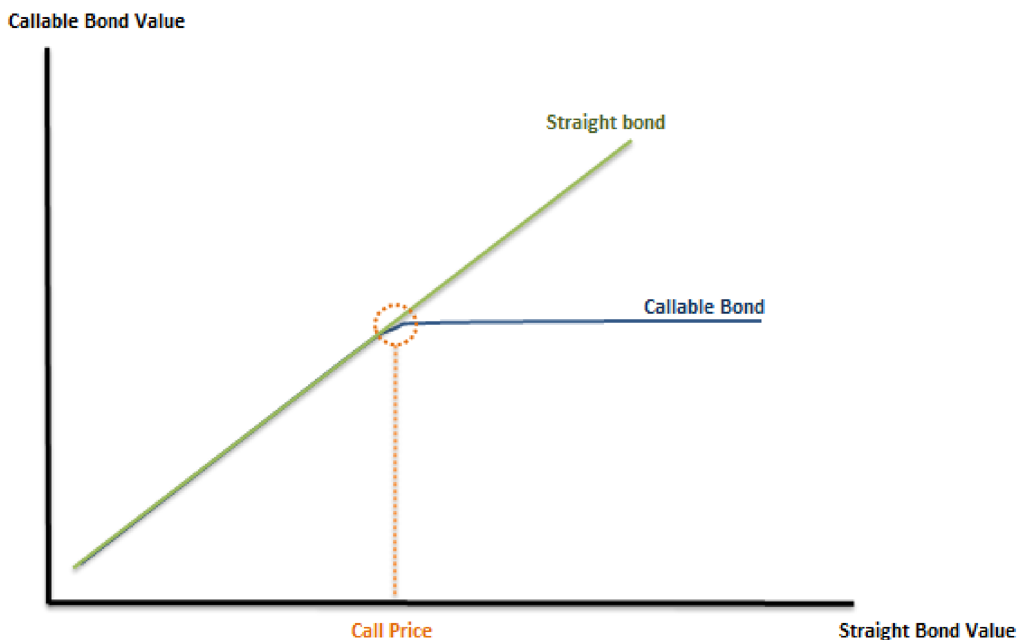
Bonds with an assigned credit rating (refer to the following section on Credit Rating for details) **"BBB-"** or higher by Standard & Poor's or Fitch (**"Baa3"** or higher by Moody's) or are considered Investment Grade bonds. Bonds with lower ratings are generally regarded as Non-Investment-Grade bonds. Non-investment Grade bonds generally offer higher yields than Investment Grade bonds in order to compensate for the greater credit risk. Thus, they are also commonly known as High Yield Bonds, Speculative Bonds, or Junk Bonds. Investors should also note that not every bond is rated, and that unrated bonds may be of high credit quality or of low credit quality.

Callable and Puttable Bonds

A Callable bond grants the Issuer the right to repay the bond before it matures. Callable bonds may be redeemed by the Issuer based on predefined terms (i.e. at face value or another pre-defined price depending on the call date). Puttable bonds, on the other hand, give Investors the right to sell the bond back to the Issuer at a predetermined price.

The below figure illustrates the relationship in terms of bond values between a straight bond (non-callable) and a callable bond, all other factors being equal:

Figure 1: Callable Bond



Sinkable Bond

A sinkable bond is backed by a sinking fund which is a fund set aside by the Issuer to ensure principal and interest payments are paid. Since Issuer has set aside a sinking fund, when interest rates fall below the nominal rate of the bond, Issuers generally could repay amount owed in full or partially in order to refinance the outstanding balance at a lower cost

Extendable bonds

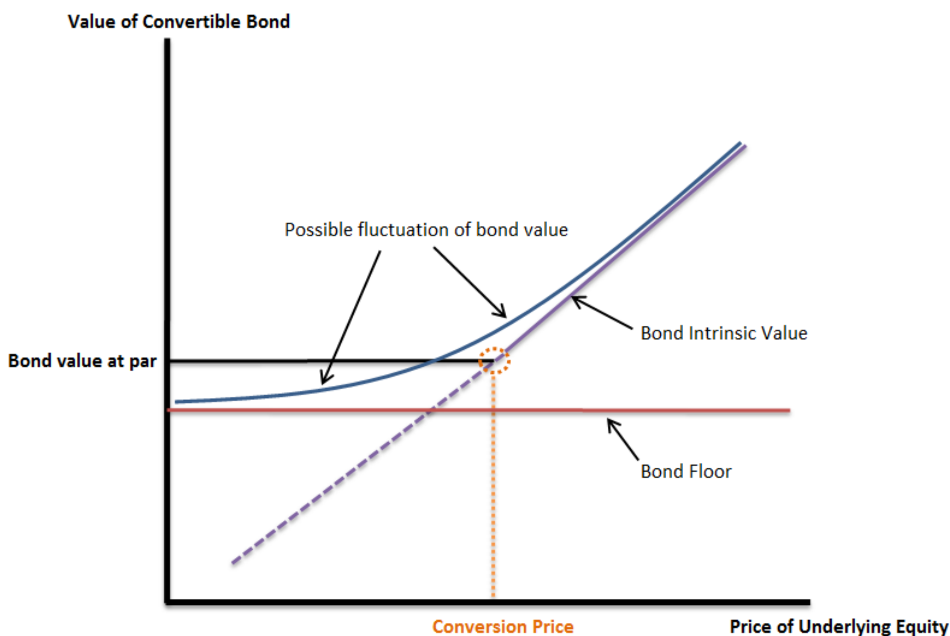
Bond with extendable features means they have extendable maturity dates. Depending on the specific terms of the bond, the option to defer the repayment of the principal can be with the Bond Holders or with the Issuers. For bonds which allow Issuers to extend the maturity date, investors would not have a definite schedule of principal repayment.

Convertible bonds

Some bonds with convertibility feature allow investor to convert the bond into common equity of the bond issuing entity at the conversion price at the discretion of investor. For some bonds with convertibility feature, some clauses may allow “redemption at the option of the issuer” which may limit the potential upside of the bond price as the issuer may redeem the convertible bond at par if certain conditions are met. In addition, even though it is uncommon, some bonds with mandatory convertibility feature allow issuer to convert the bond into common equity.

The below figure illustrates the relationship between the value of a convertible bond the underlying equity of the bond:

Figure 2: Convertible Bond



Exchangeable bonds

Exchangeable bonds allow Investor to exchange the bond for the shares of any organisation which are already in issue and held by the Issuer or a related company

CREDIT RATINGS

Rating Agencies (e.g. Moody's Investors Service, Standard & Poor's Corporation and Fitch Ratings Inc.) assess the creditworthiness of the Issuer of the bonds and assign credit ratings to both the Issuers and the bond. Higher rating is assigned to the bonds based Credit Agencies' view on the likelihood that the Bondholder would receive the repayment of the principal and interest. It is important to note that credit ratings are not static and they do not guarantee the credit quality or the probability of a particular bond or Issuer.

<table>
<tr><th></th><th colspan="3">Rating Agencies</th><th></th></tr>
<tr><th></th><th>S&P</th><th>Moody's</th><th>Fitch</th><th>General Definition</th></tr>
<tr><td rowspan="10">Investment Grade</td><td>AAA</td><td>Aaa</td><td>AAA</td><td>Issuer/Bonds have the highest credit quality and the lowest expectation of default</td></tr>
<tr><td>AA+</td><td>Aa1</td><td>AA+</td><td rowspan="3">Issuer/Bonds have excellent credit quality and very low expectation of default</td></tr>
<tr><td>AA</td><td>Aa2</td><td>AA</td></tr>
<tr><td>AA-</td><td>Aa3</td><td>AA-</td></tr>
<tr><td>A+</td><td>A1</td><td>A+</td><td rowspan="3">Issuer/Bonds have good credit quality and low expectation of credit risk</td></tr>
<tr><td>A</td><td>A2</td><td>A</td></tr>
<tr><td>A-</td><td>A3</td><td>A-</td></tr>
<tr><td>BBB+</td><td>Baa1</td><td>BBB+</td><td rowspan="3">Issuer/Bonds have adequate credit quality.</td></tr>
<tr><td>BBB</td><td>Baa2</td><td>BBB</td></tr>
<tr><td>BBB-</td><td>Baa3</td><td>BBB-</td></tr>
<tr><td rowspan="12">Non-Investment Grade</td><td>BB+</td><td>Ba1</td><td>BB+</td><td rowspan="3">Issuer/Bonds have weak credit quality.</td></tr>
<tr><td>BB</td><td>Ba2</td><td>BB</td></tr>
<tr><td>BB-</td><td>Ba3</td><td>BB-</td></tr>
<tr><td>B+</td><td>B1</td><td>B+</td><td rowspan="3">Issuer/Bonds have very weak credit quality.</td></tr>
<tr><td>B</td><td>B2</td><td>B</td></tr>
<tr><td>B-</td><td>B3</td><td>B-</td></tr>
<tr><td>CCC+</td><td>Caa1</td><td rowspan="3">CCC</td><td rowspan="3">Issuer/Bonds are very vulnerable and have high risk of default.</td></tr>
<tr><td>CCC</td><td>Caa2</td></tr>
<tr><td>CCC-</td><td>Caa3</td></tr>
<tr><td>CC</td><td rowspan="2">Ca</td><td rowspan="2">CC</td><td rowspan="3">Issuers/Obligators have failed to make payment on one or more of its financial obligations</td></tr>
<tr><td>C</td></tr>
<tr><td>D</td><td>C</td><td>DDD</td></tr>
</table>

MONETARY BENEFIT

Refer to the Fee Schedule for details.

TRADING CAPACITY

The Bank is acting as Principal in the transaction.

PRODUCT RISK CLASSIFICATION

The risk level of the product can be significantly higher if the investment is made using leverage, or not held till maturity.

UBP uses a PRC (Product Risk Classification) framework to assign a risk classification rating to each product based upon a scale of 1 to 5 as per the table below. If the product you transact has a PRC that represents a product risk mismatch given your CARP (Client Account Risk Profile) you will be informed of this by the Private Banker handling your transaction.

UBP Product Risk Classification (PRC) For bonds with loss absorption features (PRC 4-5)				
One	**Two**	**Three**	**Four**	**Five**
Products with low fluctuations in value, good creditworthiness and liquidity on normal markets	Products with good creditworthiness and moderate risks overall on normal markets	Products with single-digit to low double-digit fluctuations in value, robust creditworthiness and good liquidity on normal markets	Products with increased potential fluctuations in value in double-digit percentages or below-average creditworthiness	Products with high potential fluctuations in value of double-digit percentages and high overall risks owing to poor creditworthiness or liquidity

RISK DISCLOSURE

KEY RISKS

The following is not an exhaustive list of all the risks associated with an investment in any type of bonds with special features. Investors should carefully review the final offer documentation relating to the bond that you wish to purchase, including the description of risk factors contained therein, prior to making a decision to invest in such bond.

These risks include, among other things, product-specific, credit/default, re-investment/call, liquidity, inflation, market, interest rate, currency and event risk. The underlying obligations and certain risks arising from their ownership by the issuer will be described in more detail in the individual bond’s prospectus and/or offering documents.

Product-specific Risk

Subordinated Bonds: The bond is subordinated (or junior) and generally only senior to shares. In the event of issuer liquidation, all secured bonds and senior debts must be repaid before the subordinated bond is repaid. The holders of subordinated bonds will bear higher risks than holders of senior debts of the issuer due to a lower priority of claims in the event of the issuer’s liquidation. Investors should carefully review the final offer documentation relevant to the bond and understand the credit information (e.g. credit rating of the issuer, guarantor and the subordinated bond, where applicable) in relation to the instrument prior to the bond transaction.

Perpetual Bonds: The bond does not have a maturity date, and the coupon payments may be deferred or even suspended subject to the terms and conditions of the issue. Investors will be exposed to re-investment risk because of the bond’s callable feature. As perpetual bonds are generally subordinated, the principal and coupons will only be repaid after secured bonds and similar debts are repaid. The holders of perpetual bonds will bear higher risks than holders of senior debt as their claims rank lower in the event of the issuer’s liquidation.

Bail-in Bonds: these bonds are generally subordinated in the same fashion as other bonds with special feature. Due to the contingent capital nature of the bond, the instrument may be converted to common equity or written off when it is triggered. Investors should carefully review the final offer documentation relevant to the bond and understand the detailed terms (including the definition of a trigger event and the implications of any trigger to the investors) prior to the bond transaction.

Convertible Bonds: The price of convertible bonds are not only affected by the basic factors of vanilla bond of same issuer but also are affected materially by the underlying stock price especially when underlying stock price is trading near at-the-money level (stock price is trading at the conversion price) or in-the-money level (stock price is trading higher than the conversion price). The price of convertible bonds is positively correlated with the stock price – convertible bonds price goes up/down if the underlying stock price goes up/down respectively. The price volatility of convertible bonds is much higher than vanilla bond of the same issuer. For some convertible bonds, some clauses may allow "redemption at the option of the issuer" which may limit the potential upside of the bond price as the issuer may redeem the convertible bond at par if certain conditions are met. Upon conversation at the discretion of investor, investor will face switching the investment from fixed income to equity asset class, which carries risks which may be substantially different and higher than the risks of fixed income. Investors shall make themselves familiar with the risk associated with investing in equity asset class and also the risk profile of the underlying company.

Credit Risk/Default Risk

Default risk, also known as credit risk, refers to the risk that the issuer of a bond may default (i.e., will be unable to make timely principal and interest payments on the issue). Default risk is often gauged by the risk rating assigned by the rating companies. Because of this risk, bonds with default risk trade in the market at a price that is lower than comparable US Treasury securities, which are generally considered free of default risk. Given that bonds with special feature are generally subordinated, they carry higher credit risk than senior bonds.

Re-investment Risk/Call Risk

Subject to the terms of the issuer call option, the issuer has the right to redeem the bond early. If this happens, bond investors will also bear potential call risk. Not only does this provide uncertainty related to future cash flows for the investor, it also provides re-investment risk in the event the issuer calls the bond back when rates have actually fallen. If the proceeds need to be re-invested immediately after the bond has been called back, the yields on the other bonds in the market will tend be less favourable.

Liquidity Risk

The liquidity of a bond with special feature can be very low. Therefore, the market price may be far from its fair value. In the worst case, investors may be unable to sell the bond in the secondary market, and may need to be prepared to hold the product until maturity.

Market Risk

Before maturity, the value of the instrument will be influenced not only by the level of the issuer's credit risk, but also by other factors including: interest rates, volatility, inflation and time-to-maturity. Therefore, the instrument may trade considerably below 100% (theoretical par value) during its lifetime.

Inflation Risk

Return on bond investments lose effective economic purchasing power when prices rise. Inflation is therefore a serious concern for those who need to rely on the regular income from bonds.

Interest Rate Risk

The price of a bond will generally move in the opposite direction of interest rates. If interest rates rise, the price of a bond will fall. Conversely, as interest rates fall, the price of a bond will rise. The actual sensitivity to interest rates depends on the various characteristics of the issue. Some bonds with special feature - such as perpetuity feature - are highly sensitive to interest rate movements.

Currency Risk

The denominated currency of the bond may not be freely convertible and its conversion through banks in Asia may be subject to certain restrictions. Should the relevant country tighten exchange controls, the liquidity of the relevant currency will be affected and investors may be exposed to higher risk. This may extend to any bonds denominated in the relevant currency. As such, investors should be prepared to hold the bond until maturity. In addition, foreign exchange risks may apply in the case of cross-currency convertible bonds.

Event Risk

A corporate event such as a merger or takeover may lower the credit rating of the bond issuer. Should any corporate restructuring be financed by the issuance of a large amount of new debt, the issuer's ability to pay off existing bonds will be weakened.

EVENT ANALYSIS

In the Event of *Issuer's Liquidation*

Creditors are paid in order of the priority

- ***Senior bonds***
- ***Subordinated bonds***
- ***Preference Shares***
- ***Ordinary Shares***

Subordinated Bonds: Coupon payment may cease depending on the subordination level. The principal will only be repaid after secured bonds and similar debts are repaid. Investors may lose the entire principal invested in the worst scenario.

Perpetual Bonds: As perpetual bonds are generally subordinated, the principal and coupons will only be repaid after secured bonds and similar debts are repaid. Investors may lose the entire principal invested in the worst scenario.

Bail-in Bonds: The conversion of the bond into common equity will be triggered if the issuer is no longer viable. Investors may lose the entire principal invested in the worst scenario.

Convertible Bonds: The residual payment is based on the seniority of the bond. Investors may lose the entire principal invested in the worst scenario.

This Event Analysis is based on common features of the bonds with special feature. Please refer to the relevant final offer documentation for bond details such as bond seniority, conversion terms and call options.

In the Event of *Issuer's Financial Distress* (Issuer is Still Viable)

Subordinated Bonds: No impact to the coupon payment of the bonds.

Perpetual Bonds: The coupon will be cancelled, or deferred. It may be cumulative under certain conditions

CoCos: The coupon will be cancelled, or deferred. Coupons are non-cumulative.

Bail-in Bonds: No impact to the coupon payment of the bonds.

Convertible Bonds: No impact to the coupon payment of the bonds.

This Event Analysis is based on common features of the bonds with special feature. Please refer to the relevant final offer documentation for bond details such as bond seniority, conversion terms and call options.

In the Event that Bonds are *Called by the Issuer*

All Bonds: Coupon payment stops. The bonds may have the option of conversion into common equity in which case investors may be exposed to re-investment risk if the repaid principal(s) need to be re-invested in less favourable assets. Investors may have a loss or gain on the converted equity (depending on the market value of underlying common equity).

This Event Analysis is based on common features of the bonds with special feature. Please refer to the relevant issuer's final offer documentation for bond details such as bond seniority, conversion terms and call options.

In the event of loss absorption mechanism triggered (Worst case scenario)

CoCos/Subordinated Loss absorbing capacity bank or insurance bonds: Coupon payment stops. The bonds are converted to equity or written down. Investors may lose 100% of the notional invested.

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MUTUAL FUNDS & EXCHANGE TRADED FUNDS

UBP Generic Product Information Sheet | May 2024

For Professional Investors only in Hong Kong and Accredited Investors (in respect of accounts opted-in to be treated as Accredited Investors) and Institutional Investors in Singapore only

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MUTUAL FUNDS & EXCHANGE TRADED FUNDS INTRODUCTION

Both Mutual Funds (Funds) and Exchange Traded Funds (ETFs) are collective investment schemes, meaning that they are made up of pooled funds collected from many investors for the purpose of investing in securities such as stocks, bonds, money market instruments and similar assets. When an investor contributes a sum of money to that pool, he is in effect, an owner of a small slice of all the different investment instruments that the fund or ETF owns.

KEY FEATURES

Common features of both mutual funds and ETFs:

- **Professional Management:** A fund or ETF’s portfolio is professionally managed by experienced money managers who, in the case of an active fund, research and select investments that are appropriate for the fund’s objective or in the case of an ETF, track a benchmark while minimizing costs. Professional fund managers provide full-time monitoring of the performance of underlying investments. If changes are necessary, they’re able to modify the fund’s holdings.
- **Diversification:** funds and ETFs are often composed of a broad range of assets. The overall investment risk will therefore be reduced as the effect of the poor performance of a single asset will be mitigated. However, there are ETFs track single or only a few underlying asset(s) such as gold, silver, and oil.
- **Easy access to a diverse range of investment opportunities:** funds and ETFs focus on specific sectors, regions, investment themes or asset classes, including restricted markets (e.g. China A-share market). Investors

who would like exposure to a specific market without taking a view on a specific security can do so through a single trade in a fund or ETF.

- **Economies of scale:** Because a fund or ETF buys and sells large amounts of securities at a time, its transaction costs are lower than what an individual would pay for securities transactions. Moreover, since it pools money from many smaller investors, it can invest in certain assets or take larger positions than a smaller investor could.

Mutual funds can be divided into actively managed funds, which aim to outperform a set benchmark or performance target and passive or index funds, which aim to replicate the performance of an index while minimizing costs.

Actively managed funds are managed by professional fund managers such as Blackrock, Schroders or PIMCO amongst others. They are experts in their fields, whose full-time jobs are to monitor the markets and make decisions using their knowledge of the markets, internal research, and analytical tools that a smaller investor may not have access to.

Types of mutual funds

Mutual funds can be classified according to their asset allocations:

- **Equity Funds:** Equity funds are mutual funds that contain equity securities, mainly stock. The objectives of these funds are usually long-term growth with some income. However, performances of these funds vary since there are many types of equities.
- **Fixed-Income Funds:** The main objective of fixed-income funds is to generate steady cash flow for fund holders by investing in government or corporate debt, such as bonds. Fixed-income funds are a relatively safe investment since they promise to generate steady income flow. However, these funds are not without risk. A fund investing in junk bonds, which have high yields but also high default risk, is much more risky than other fixed-income funds.
- **Money Market Funds:** Money market funds invest in short-term debt products, such as Treasury Bills, CDs, and other short-term money market instruments. These funds bear very little risk and are therefore particularly suitable for conservative investors.
- **Balanced Funds:** Balanced funds invest primarily in equities and fixed income securities, shifting assets among stocks, bonds and money market instruments depending on current market conditions.
- **Commodities Funds:** Commodities funds generally include Commodities futures funds, Commodities Index funds and Precious Metal ETFs which allow investors to gain exposure to the commodities market since this asset class was not easily accessible in the past.

The investment style or investment approach taken by a manager will impact the behaviour of the fund. Two funds investing in the same asset class with two different approaches might have significantly different risk and return characteristics. Here are a few examples of the more common investment approaches:

- **Top-down or bottom-up:** A top-down manager will focus on the macro environment or a big theme to invest in broad economic sectors while a bottom-up manager will strive to select the best securities regardless of what is happening in the economy.
- **Value or growth:** Value managers invest in bargain stocks of companies that are trading below their intrinsic value or opportunities that have been overlooked by the market. Growth managers invest in stocks of companies with above-average earnings growth and profits or companies that are well positioned to capitalize on long term growth trends. Blend managers invest in companies with a mix of both styles.
- **Fundamental or technical analysis:** Fundamental analysis involves examining the earning potential of a company while technical analysis aims to detect patterns in security prices.

Passive index funds are special types of funds that buy shares in different companies such that it matches and tracks a market index. As these types of funds don't require as much expertise from the fund management company, fees will usually be lower than for actively managed funds.

Exchange Traded Funds are similar to index funds in that they may be considered by investors who would like to ride on the general sector/regional movement of a market instead of taking a view on any particular stock/asset or who would like to gain access to restricted markets (e.g. China A-share market).

One of the main differences between an ETF and an index fund is that an ETF is structured as an investment trust that is traded on stock exchanges. They therefore trade like stocks, meaning that they are priced by supply and

demand of investors and are subject to fluctuations in value vs their NAV. This also means that, unlike mutual funds, ETFs can usually be bought and sold at any point in the day during market opening hours.

The main feature of ETFs is that they track indices. To achieve the index tracking objective, an ETF fund manager may adopt one or more of the following three strategies:

- **Full replication** by investing in a portfolio of securities that replicates the composition of the underlying index.
- **Representative sampling** by investing in a portfolio of securities featuring a high correlation with the underlying index, but not exactly the same securities as those in the index.
- **Synthetic replication** through the use of financial derivative instruments to replicate the index performance.

Some ETFs listed on the Stock Exchange of Hong Kong (SEHK) have a marker "X" at the beginning of their stock short names, an asterisk (*) and an annotation "(*This is a synthetic ETF)" right after their names. These specifications denote that synthetic replication applies to these types of ETFs.

Commodities ETFs

Exchange traded Commodities index funds offer investors the opportunity to invest in baskets of commodities through some liquid financial instruments listed on an exchange. Another example of Commodities ETFs is Precious metal ETFs which hold physical bullion of specific precious metals such as gold bullion and silver bullion. Generally, both Commodities Index ETFs and Precious metal ETFs are passively managed funds structured to track the performance of chosen commodities indices or precious metal.

Futures-based ETFs

Future based ETFs are funds that invest in future contracts with an aim to replicate the performance of an underlying index. Investors should note the specific risks for investing in Future-based ETFs which include:

- Risk of rolling future contracts: Rolling occurs when the futures-based ETFs need to sell existing near-term futures contracts and buy longer-term future contracts. During Contango, a situation in which the value of near-term futures are less than those that expire in a longer term, the NAV of the ETF will be negatively impacted.
- Risk of statutory position limits on futures contracts: This refers to the scenario which a future-based ETF could not further acquire future contracts as the holding limit of such contracts has been reached. This might create a difference between the trading price and the NAV of the ETF unites listed on the exchange,
- Risk of future contracts being priced below 0: Negative prices have occurred in futures on natural gas, electricity and more recently WTI crude oil. An ETF exposed to such futures may be subject to a redemption and may be redeemed at zero.

Leveraged and Inverse Products

Leveraged and inverse products (L&I Products) are derivative products traded on an exchange. Unlike conventional funds, L&I products are typically designed for short term trading or hedging with holding period generally no greater than a day, in other words, L&I products are generally not suitable for an investor with a buy-and-hold strategy.

UCITS FRAMEWORK

The UCITS (Undertaking in Collective Investments in Transferable Securities) regime aims to provide individuals with a secure environment for fund investing. The UCITS framework applies both to funds and ETFs. It sets out universal rules on how these funds should be structured, managed and governed, and how their assets should be safeguarded. Funds that meet the set criteria, and therefore classified as UCITS compliant, can be sold freely to the public in any EU country, provided that they meet the standard UCITS notification requirements.

Here are a few aspects of investor protection contained in the UCITS framework:

- **Eligible assets:** Generally, UCITS funds are restricted to invest in transferable securities or in other liquid financial assets. Under certain conditions they may also use financial derivative instruments, such as futures, options or swaps based on an eligible UCITS asset or an approved financial index.
- **Diversification:** UCITS funds are designed to be suitable to retail investors. Rules ensure a minimum diversification level. The most commonly known restriction is the so-called 5/10/40 rule: maximum of 10 per cent of a fund's net assets may be invested in securities from a single issuer and investments of more than 5 per cent with a single issuer may not make up more than 40 per cent of the whole portfolio.
- **Liquidity:** The vast majority of UCITS funds offer daily liquidity. For a fund to be UCITS eligible, its shares should be tradeable at least twice a month, subject to limited exceptions.
- **Valuation:** Investors buy shares or units in a UCITS without knowing the exact price, which is only established after the deal has been placed. As a rule, the latest official market closing prices must be used to value publicly-traded securities, otherwise a 'fair market value' must be provided. This is designed to offer protection against late trading, market timing and other practices that can affect the value of a fund. Trade confirmation will be provided when the NAV is available.
- **Risk management and compliance:** Managers must have procedures to measure the risk of a fund's investments at all times, and the risk management function must be independent of the portfolio management activity, to minimise the possibility of conflicts of interest. What is important is that a UCITS fund adheres to the level of risk it has told investors it will take.
- **Oversight and safekeeping:** There is broad range of supervision, checks and balances at different levels to ensure that the interests of investors are protected. Management and investment companies of must have a supervisory and governance framework for taking decisions, hold regular board meetings, and appoint officers responsible for operation of the fund. In terms of safekeeping, the depository bank, where the assets of the fund are entrusted, must be independent from the management and investment companies.
- **Fund information:** According to the UCITS rules, the fund must publish a prospectus, annual and semi-annual reports, and a Key Investor Information Document (KIID). These documents can be accessed on the web site of the asset manager of the fund or requested to your banker.

RISK DISCLOSURE

The following is not an exhaustive list of all the risks associated with an investment in mutual funds or ETFs. Investors should carefully review the final offer documentation relating to the mutual fund or ETF that you wish to purchase, including the description of risk factors contained therein. Investors should bear in mind that these risks apply to mutual funds and ETFs but also to investment products that invest in or are linked to the performance of mutual funds and ETF(s).

RISKS APPLICABLE TO MUTUAL FUNDS AND ETFS IN GENERAL

Market risk

Investors are exposed to the political, economic, currency, interest rate and other risks of a specific sector or market related to the underlying investments.

Currency risk

Commonly referred to as exchange-rate risk, arises from the change in price of one currency in relation to another. Investors that have exposure to a foreign currency or in foreign currency traded investments are exposed to currency risk that may create unpredictable profits and losses.

Interest rate risk is the risk that an investment's value will change due to a change in the absolute level of interest rates, in the spread between two rates, in the shape of the yield curve, or in any other interest rate relationship.

Liquidity risk

Liquidity risk refers to the possibility that a portfolio manager may not be able to buy or sell an investment as and when desired or in sufficient quantities because opportunities are limited.

For ETFs, a liquid secondary market may not exist.

Potential conflicts of interest

The subsidiaries and affiliates of the ETF or mutual fund manager may also play a role in the ETF or mutual fund which may give rise to potential conflicts of interest.

Concentration risks

Certain Funds may invest in a limited number of securities and therefore be considered as concentrated. The value of the Fund may fluctuate more than that of a diversified Fund holding a greater number of securities. The selection of securities in a concentrated portfolio may also result in sectoral and geographical concentration.

ETFs may invest in single country and sector.

Tax and other risks

Like all investments, a mutual fund or ETF may be subject to tax imposed by the local authorities in the market in which it is invested.

Fund that Invest in LIBOR-linked Instruments

The fund may have invested in LIBOR-linked instruments. LIBOR may be decommissioned in near term. This may significantly impact your investment returns if the fund has invested heavily in such products.

ADDITIONAL RISKS APPLICABLE TO ETFS

Passive investments

Unlike other funds, ETFs are usually passively managed and will not adopt defensive position against any market downturn.

Tracking errors

Changes in the net asset value of the ETFs may deviate from the performance of the tracking index due to factors such as fees, expenses, liquidity of the index constituents and failure of tracking strategy.

Trading risk

ETFs may trade at premium or discount to its net asset value due to secondary market trading factors such as market demand and liquidity.

Termination Risk

Termination of funds including ETF could happen under certain circumstances. Since there may be costs and expenses associated with the termination process which is set aside of the NAV of the fund upon the termination announcement, Investors may suffer a significant loss. Investors should refer to the section in the offering document relating to termination for further details.

In addition, the market-making activities and the trading of ETF units may be negatively impacted in the secondary market as the creation of units will discontinue once the termination of the ETF is announced. As a result, the trading price of such ETF units may become very volatile creating substantial losses to investors.

Upon termination of the ETF, an investor may cease to receive any refund or further distribution on any tax provision as a result of the ETF.

ADDITIONAL RISKS APPLICABLE TO SYNTHETIC ETFS IN PARTICULAR

Where the ETF adopts a synthetic replication investment strategy for the purposes of replicating the performance of the Benchmark, it may invest in and/or trade in a variety of investments and financial derivative instruments using sophisticated techniques for hedging and non-hedging purposes. Such financial derivative instruments and investment techniques may include, but are not limited to, the use of leverage, short sales of securities, derivative transactions, such as swaps, stock options, future contracts and options on futures, lending of securities to certain financial institutions, entry into repurchase and reverse repurchase agreements for securities. In addition to the risk of the Benchmark to which the ETF is designed to track, you should note that, the investments in such financial derivative instruments by the ETF will expose such ETF to, amongst other risks:

Credit risks arising from derivatives counterparties

Investors are exposed to the credit risk of the derivatives counterparties. In the event of default by any counterparty, the ETF may be suspended, and the shares of the ETF may not continue to trade. The ETF may ultimately be terminated. Investors may suffer significant losses equal to the full value of the derivatives net of any collateral provided.

Potential concentration and contagion risks of counterparties

The derivatives counterparties are predominantly financial institutions and this, in itself, may pose a concentration risk. Any adverse event affecting the performance of a particular derivative's counterparty may also have a negative impact on the performance of others due to the contagion effect.

Collateral risks

While some synthetic ETFs may hold, or have recourse to, collateral to mitigate the exposure to credit risks of the derivatives counterparties, the collateral may not comprise any constituent securities of the index. The collateral may also be concentrated in particular market(s), sector(s) and/or securities issued by specific sovereign or public issuer(s) which may not be related to the underlying index. Furthermore, when an ETF seeks to exercise its rights against the collateral upon any default of counterparties, the market value of the collateral could be substantially less than the amount secured if the market drops sharply before the collateral is realised, thereby resulting in significant loss to the ETF.

Higher liquidity risk

Higher liquidity risk if the ETF invests in financial derivative instruments which do not have an active secondary market, in particular, if the Benchmark that the ETF tracks is subject to restricted market access. Wide bid/offer spreads in the prices of such financial derivative instruments may have a negative impact on the value of such ETF.

Early Unwinding of Derivatives Risk

The costs for unwinding of derivatives before maturity could be significant when the market volatility is high. Therefore, in the event of early redemption or when an ETF with synthetic replication is terminated, the amount payable to investors may be significantly lower than the NAV of the fund units. As a result, investor could suffer substantial loss.

PRODUCT RISK CLASSIFICATION FRAMEWORK

The risk level of the product can be significantly higher if the investment is made using leverage, or not held till maturity.

UBP uses a PRC (Product Risk Classification) framework to assign a risk classification rating to each product based upon a scale of 1 to 5 as per the table below. If the product you transact has a PRC that represents a product risk mismatch given your CARP (Client Account Risk Profile) you will be informed of this by the Private Banker handling your transaction**.**

UBP Product Risk Classification (PRC)				
One	**Two**	**Three**	**Four**	**Five**
Products with low fluctuations in value, good creditworthiness and liquidity on normal markets	Products with good creditworthiness and moderate risks overall on normal markets	Products with single-digit to low double-digit fluctuations in value, robust creditworthiness and good liquidity on normal markets	Products with increased potential fluctuations in value in double-digit percentages or below-average creditworthiness	Products with high potential fluctuations in value of double-digit percentages and high overall risks owing to poor creditworthiness or liquidity

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DEVELOPED AND EMERGING MARKET EQUITIES

UBP Generic Product Information Sheet | May 2024

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INTRODUCTION

Equities (also known as a stocks or shares) represent a claim on profits and dividend of a company, and usually include voting rights.

KEY FEATURES

Common characteristics:

Key characteristics of equities are:

- Underlying Company
- Market of Issuance
- Currency
- Valuation

Primary and secondary market

The first issuance of shares to the public market through an initial public offering (“IPO”) will be accompanied by a prospectus or offering document, which describes all aspects of the company’s operations including risks.

Once the shares begin trading, this is now called the secondary market.

Geographical definition of Developed Markets vs Emerging Markets

MSCI is the global standard for equity benchmark indices, including the generally accepted definitions of Developed Markets (“DM”) vs Emerging Markets (“EM”). MSCI uses a 3-factor framework based on economic development, size and liquidity, and market accessibility.

- **Economic development** – Focus on sustainability of economic development. MSCI uses the following definition for **Developed Markets**: Country gross national income (GNI) per capita 25% above the World Bank high income threshold* for 3 consecutive years (*high income threshold $12,615 based on World Bank criteria). No requirement for Emerging Markets.
- **Size and liquidity** - based on MSCI minimum investability requirements
- **Market accessibility** – qualitative measures reflecting international institutional investors’ experience, including sub-criteria: openness to foreign ownership; ease of capital inflows/outflows; efficiency of the operational framework; stability of the institutional framework. Developed Markets qualitative rating must be *very high* for all of these.

The MSCI market classification approach “aims to reflect the views and practices of the international investment community by striking a balance between a country’s economic development and the accessibility of its market while preserving index stability.”
https://www.msci.com/documents/1296102/1330218/MSCI_Market_Classification_Framework.pdf/d93e536f-cee1-4e12-9b69-ec3886ab8cc8

At the individual equity level, Developed Markets vs Emerging Markets classification is based on country of domicile rather than country of listing eg American Depositary Receipts (ADRs), and Global Depositary Receipts (GDRs).

The tables below here show the current MSCI classification of global Developed Markets and Emerging Markets, extracted from MSCI website. MSCI reviews the classification on an annual basis. The classification by jurisdiction may be changed from time to time without notice; for latest information, please visit https://www.msci.com/market-classification .

Developed Markets				
DM Americas	**DM Europe & Middle East**		**DM Pacific**	**Developed Markets Index**
Canada	Austria	Italy	Australia	**MSCI World Index (MXWO)** ▪ Includes the 23 DM markets listed at left ▪ Covers 85% of free float-adjusted market capitalisation in each country
US	Belgium	Netherlands	Hong Kong	
	Denmark	Norway	Japan	
	Finland	Portugal	New Zealand	
	France	Spain	Singapore	
	Germany	Sweden		
	Ireland	Switzerland		
	Israel	UK		

Emerging Markets			
EM Americas	**EM Europe, Middle East & Africa**	**EM Asia**	**Emerging Markets Index**
Brazil	Czech Republic	China	**MSCI Emerging Markets (MXEF)** ▪ Includes the 24 EM markets listed at left ▪ Covers 85% of the free float-adjusted market capitalisation in each country
Chile	Egypt	India	
Columbia	Greece	Indonesia	
Mexico	Hungary	Korea	
Peru	Kuwait	Malaysia	
	Poland	Philippines	
	Qatar	Taiwan	
	Saudi Arabia	Thailand	
	South Africa		
	Turkey		
	UAE		

Classification beyond Developed Markets and Emerging Markets

- **Frontier Markets** – also no requirement for sustainability of economic development, lower size and liquidity and market accessibility than Emerging Markets

Frontier Markets				
Europe & CIS	**Africa**	**Middle East**	**Asia**	**Frontier Market Indices**
Croatia	Kenya	Bahrain	Bangladesh	**MSCI Frontier Markets Index (MXFM)** - Includes the 29 FM countries listed at left - Covers 85% of the free-float adjusted market capitalisation of each country
Estonia	Mauritius	Jordan	Pakistan	
Iceland	Morocco	Oman	Sri Lanka	
Lithuania	Nigeria		Vietnam	
Kazakhstan	Tunisia			
Romania	WAEMU*			
Serbia				
Slovenia				

*WAEMU = West African Economic and Monetary Union (WAEMU) consists of the following countries: Benin, Burkina Faso, Ivory Coast, Guinea-Bissau, Mali, Niger, Senegal and Togo. Currently the MSCI WAEMU Indexes include securities classified in Benin, Senegal, Ivory Coast and Burkina Faso

- **MSCI Standalone Market Indices** – not included in EM or Frontier Markets, but use the same criteria concerning size and liquidity

Standalone Markets			
Standalone Frontier Markets			
Americas	**Europe & CIS**	**Africa**	**Middle East**
Argentina	Bosnia	Botswana	Lebonon
Jamaica	Herzegovina	Zimbabwe	Palestine
Panama	Bulgaria		
Trinidad & Tobago	Malta		
	Russia		
	Ukraine		

Reclassification - through its Annual Market Classification Review, MSCI considers and seeks feedback on markets it has placed under review for potential market reclassification, with conclusions communication each June.

HKEX HKD-RMB Dual Counter Model

In June 2023, the Hong Kong Stock Exchange (HKEX) has introduced the HKD-RMB Dual Counter Model ('the Model") to the secondary market for trading and settlement purpose. The model covers securities listed in both HKD and RMB counters only. All shares or units of the same securities but in different trading counters are generally of the same class, with the same holders' rights and entitlements, and fully interchangeable between counters. Only eligible securities specified by HKEX can trade under the Model, which will be updated by HKEX from time to time. The Model offers investors choices of trading currency and potentially tap into new RMB liquidity. Further, a Dual Counter Security designated by HKEX may have market makers which would provide liquidity in the secondary country (initially RMB counter) and narrow the price discrepancies between its HKD-RMB Dual Counters. Issuers may choose to pay dividends in HKD or RMB.

For details, please refer to links below.

Trading mechanism of HKD-RMB Dual Counter Model
FAQ on Issuer, Trading, Clearing and Settlement, and Risk Management Arrangements (Jun 2023)
The Guidance Note on Short Selling Reporting and Stock Lending Record Keeping Requirements (Jun 2023)

RISK DISCLOSURE

KEY RISKS

The following is not an exhaustive list of all risks associated with an investment in developed and emerging market equities. Investors should carefully review the final offer documentation (if any), including the final description of risk factors contained therein. Investors should bear in mind that these risks apply to developed and emerging market equities but also to investment products that invest in or are linked to the performance of developed and emerging market equities.

Developed and emerging market equities may expose investors to the following risks:

Liquidity risk

Some equities may not have active secondary markets and it would be difficult or impossible for investors to sell the stock without significantly affecting its price. In the worse scenario, an investor may be unable to sell the shares in the secondary market.

Market risk

The value of stocks may rise or fall depending on various factors. Equities are susceptible to fluctuations in economic conditions and market sentiment that may have no direct impact with the health of the company.

Dilution risk

Company management may opt to raise capital through various methods which may dilute existing shareholders.

Bankruptcy risk

If a company goes bankrupt and liquidates, common shareholders are last in line to receive money after creditors, bondholders and preferred shareholders.

Inflation and interest rate risk

Inflation and interest rates plays an important part in the price variation of equities and equity markets.

Currency risk

For equities denominated in a foreign currency, there may be an exchange loss when converting the redemption amount back to the local or base currency, particularly in the event the bond currency depreciates against the settlement currency.

Political risk

Equities in both developed markets, emerging markets and frontier markets may be affected by country-specific political events, in addition to regional and global political issues.

Corporate governance risk

Companies in both Developed Markets and Emerging Markets have differing levels of corporate governance, which can affect equity performance both positively or negatively. This can includes corporate remuneration policies, connected transaction rules and accepted definition of insider trading definition and prosecution of all forms of market manipulation.

RISK INFORMATION - please refer to the additional RISK FACTORS in the issuers Offer Documentation (prospectus).

PRODUCT RISK CLASSIFICATION FRAMEWORK
The risk level of the product can be significantly higher if the investment is made using leverage.

UBP uses a PRC (Product Risk Classification) framework to assign a risk classification rating to each product based upon a scale of 1 to 5 as per the table below. If the product you transact has a PRC that represents a product risk mismatch given your CARP (Client Account Risk Profile) you will be informed of this by the Private Banker handling your transaction**.**

UBP Product Risk Classification (PRC)				
One	**Two**	**Three**	**Four**	**Five**
Products with low fluctuations in value, good creditworthiness and liquidity on normal markets	Products with good creditworthiness and moderate risks overall on normal markets	Products with single-digit to low double-digit fluctuations in value, robust creditworthiness and good liquidity on normal markets	Products with increased potential fluctuations in value in double-digit percentages or below-average creditworthiness	Products with high potential fluctuations in value of double-digit percentages and high overall risks owing to poor creditworthiness or liquidity

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UBP Generic Product Information Sheet | May 2024

For Professional Investors only in Hong Kong and Accredited Investors (in respect of accounts opted-in to be treated as Accredited Investors) and Institutional Investors in Singapore only

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INTRODUCTION

China-Hong Kong Stock Connect (Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect) is a mutual market access program, through which investors in Hong Kong and Mainland China can trade and settle shares listed on the other market respectively via the exchange and clearing house in their local market.

China A-Shares are RMB-denominated equity shares of China-based companies that trade on the Shanghai (“SSE”) and Shenzhen (“SZSE”) Stock Exchanges.

Stock connect allows international investors to trade eligible securities (A-Shares) through the trading and clearing facilities of the Hong Kong Stock Exchange (HKSE).

This product brochure provides generic information for clients investing in A-Shares via Shanghai and Shenzhen Connect. It is not exhaustive and may not be up to date. Please read this product brochure in conjunction with the relevant documents on the programme available on the HKEX Website at www.hkex.com.hk/mutualmarket.

Important Notes

- Trading Currency is in Chinese Renminbi (CNH)
- Out of Scope: B-Shares and ChiNext Shares
- Northbound trading refers to the trading of SSE securities or SZSE securities by Hong Kong and overseas investors through the respective linkages and related technical infrastructures established between SSE or SZSE with HKSE.

Eligible Securities for Northbound Trading under Shanghai and Shenzhen Connect

- Among the different types of SSE-or SZSE-listed securities, only A-shares are included in Shanghai and Shenzhen Connect.
- Other product types such as B-shares, Exchange Traded Funds (“ETFs”), bonds, and other securities are not included.

Investor Eligibility to trade on Northbound (Except Mainland investors*):

- All Hong Kong and overseas individual investors.
- Singapore clients with *Accredited Investor* (“AI”) status are considered as overseas individual investors.

** Mainland investors include*

a) individuals that possess Mainland ID documents;

b) holders of a joint account if one of the holders is considered as Mainland investor under (a); and
c) corporate or unincorporated entities which are registered in the Mainland

Quota

Trading under Shanghai and Shenzhen Connect will be subject to a Daily Quota.

- Northbound daily quota: CNH 52 billion for each of Shanghai and Shenzhen Connect.
- Daily Quota is applied on a “net buy” basis.
- Under that principle, investors are always allowed to sell their cross-boundary securities or input order cancellation requests regardless of the quota balance.
- Daily Quota is used on a first-come, first-served basis (on buy orders side).

Trading

Trading under Shanghai and Shenzhen Connect will be subject to a Daily Quota.

- Day trading is not allowed. Therefore, clients buying on T-day can only sell the shares on and after T+1 day.
- Limit orders are Day orders only (no GTC or GTD) and limit is +/-10% of the market closing price

Settlement:

- Eligible securities in CNH only.
- Settlement occurs on T-day (same day as the purchase day).
- Clients who intends to trade A-shares through Stock Connect must be pre-funded in Renminbi (CNH) at T-1.
- No naked short selling for securities and no overdraft allowed.

Order Types

- For Northbound trading, only limit orders (i.e. orders which can be matched at the specified price or a better price) will be accepted for SSE Securities and SZSE Securities throughout the day.
- The stock codes of SSE and SZSE Securities are 6 digits and investors should use SSE and SZSE stock codes when placing orders.
- SSE and SZSE Securities are subject to the board lot size of 100 shares.
- Buy orders must be in board lots. Odd lot trading is only available for sell orders and all odd lots should be sold in one single order.

Holidays Arrangement:

Hong Kong and overseas investors are only allowed to trade on days when:

- HKSE, SSE and SZSE are open for business; and
- Banking services of both markets are open on the corresponding money settlement days
- The following table illustrates the holiday arrangement of Northbound trading of SSE/SZSE Securities:

	Mainland	Hong Kong	Open for Northbound Trading?	
Day-1	Business Day	Business Day	Yes	
Day-2	Business Day	Business Day	No	HK market closes on money settlement day
Day-3	Business Day	Public Holiday	No	HK market closes on trading day
Day-4	Public Holiday	Business Day	No	Mainland market closes

HKEX HKD-RMB Dual Counter Model

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and RMB counters only. All shares or units of the same securities but in different trading counters are generally of the same class, with the same holders' rights and entitlements, and fully interchangeable between counters. Only eligible securities specified by HKEX can trade under the Model, which will be updated by HKEX from time to time. The Model offers investors choices of trading currency and potentially tap into new RMB liquidity. Further, a Dual Counter Security designated by HKEX may have market makers which would provide liquidity in the secondary country (initially RMB counter) and narrow the price discrepancies between its HKD-RMB Dual Counters. Issuers may choose to pay dividends in HKD or RMB.

For details, please refer to links below.

Trading mechanism of HKD-RMB Dual Counter Model
FAQ on Issuer, Trading, Clearing and Settlement, and Risk Management Arrangements (Jun 2023)
The Guidance Note on Short Selling Reporting and Stock Lending Record Keeping Requirements (Jun 2023)

RISK DISCLOSURE

KEY RISKS

The following is not an exhaustive list of all risks associated with an investment in China A-Shares China Connect Markets equities. Investors should carefully review the final offer documentation (if any), including the final description of risk factors contained therein. Investors should bear in mind that these risks apply to developed and emerging market equities but also to investment products that invest in or are linked to the performance of developed and emerging market equities.

Investing in China Connect Markets, an emerging market, involves special considerations and risks, including but not limited to greater price volatility, less developed regulatory and legal framework, economic, and social and political instability.

Liquidity risk

Although China Connect Securities are listed for trading on the China Connect Markets and available for trading through SEHK by China Connect Services, there can be no assurance that an active trading market for China Connect Securities will develop or be maintained. If spreads on China Connect Securities are wide, this may adversely affect your ability to dispose of China Connect Securities at the desired price. If you need to sell China Connect Securities at a time when no active market for them exists, the price you receive for your China Connect Securities - assuming you are able to sell them - is likely to be lower than the price received if an active market did exist.

Market risk

The market value of China Connect Securities and the income from them may go down as well as up. There can be no assurance that you will achieve profits or avoid losses from trading China Connect Securities, significant or otherwise. The return you receive from the China Connect Securities (if any) will fluctuate in response to changes in capital appreciation and/or income relating to such China Connect Securities.

Furthermore, China Connect Securities may experience volatility and decline depending on market conditions. Through trading China Connect Securities, you are exposed to various forms of risk dependent on factors which are difficult to predict, including for example, interest rate risks (risks of falling China Connect Securities values in a rising interest rate market), income risks (risks of falling incomes from China Connect Securities in a falling interest rate market) and credit risk (risk of a default by an issuer of China Connect Securities).

Dilution risk

Company management may opt to raise capital through various methods which may dilute existing shareholders.

Possible Business Failure risk

In the current economic environment, global markets are experiencing very high level of volatility and an increased risk of corporate failures. The insolvency or other corporate failures of any issuer of China Connect Securities may have an adverse effect on your investment. You may lose money by investing in China Connect Securities.

Inflation and interest rate risk

Inflation and interest rates play an important part in the price variation of equities and equity markets.

Currency risk

a) RMB is not yet freely convertible in Hong Kong and is subject to foreign exchange controls and restrictions. Particularly, conversion of RMB through banks in Hong Kong is subject to certain restrictions. It may be difficult for investors to convert RMB into Hong Kong dollars or other currencies or vice versa at any specific time, and conversion will be subject to conversion costs and such costs and timings for conversion may not be of your preference.
b) In addition, the value of RMB against Hong Kong dollars or other foreign currencies may be affected by a wide range of factors. There is no guarantee that RMB will not depreciate. A depreciation of RMB may result in a decrease in the market value of the RMB securities and the realisation price of the RMB securities. Non-RMB based investors who are trading in RMB securities, may also sustain loss in the event that they subsequently convert any RMB proceeds back to Hong Kong dollars or other base currencies.

c) There are also significant restrictions on the remittance of RMB into and out of the PRC. If the issuer of the RMB securities is not able to remit RMB to Hong Kong or make distributions in RMB due to exchange controls or other restrictions, the issuer may make distributions (including dividends and other payments) in other currencies. Investors may therefore be exposed to additional foreign exchange risk and liquidity exposures.
d) The liquidity and trading price of China Connect Securities may be adversely affected by the limited availability of RMB outside the PRC and the restrictions on the conversion of RMB. These factors may affect the liquidity of RMB for investors and accordingly adversely affect the market demand for China Connect Securities.

Political risk

Equities in both developed markets, emerging markets and frontier markets may be affected by country-specific political events, in addition to regional and global political issues.

Corporate governance risk

Companies in both Developed Markets and Emerging Markets have differing levels of corporate governance, which can affect equity performance both positively or negatively. This can include corporate remuneration policies, connected transaction rules and accepted definition of insider trading definition and prosecution of all forms of market manipulation.

RISK INFORMATION - please refer to the additional risk factors in the issuers Offer Documentation (prospectus). The above risk information is not a summary of the applicable regulations and does not necessarily disclose all the risks and significant aspects of the China A-Shares China Connect services. Investors are advised to carefully study the applicable regulations and the terms and seek independent financial, tax, legal or other advice, as appropriate, before trading in China A-Shares.

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The risk level of the product can be significantly higher if the investment is made using leverage.

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Union Bancaire Privée, UBP SA is incorporated in Geneva, Switzerland with limited liability.

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