

GUIDANCE NOTE 5

Date issued: 30 August 2005

Issued Pursuant to the Guidelines on Unit Trust Funds

- In relation to the amendment to the investment restrictions and limits on investment in other collective investment schemes.

Introduction

1. This Guidance Note is published to notify policy amendments in relation to the provision under Clause 10.05 and Schedule C – Appendix I of the Guidelines on Unit Trust Funds (Guidelines).
2. Nothing contained herein should be construed as prejudicing the powers of the Securities Commission under the Guidelines.

Amendments to Clause 10.05 (Investments in Other Collective Investment Schemes)

3. Under this Guidance Note, the entire Clause 10.05 of the Guidelines is substituted with the following revised provisions:

- (1) Subject to this clause, the investments of the fund (in this clause referred to as the “investing fund”) may consist of units or shares in other collective investment schemes (in this clause referred to as the “target funds”).
- (2) The investment of the investing fund in target funds is subject to the following conditions:
 - (a) The investment in the target fund must be relevant and consistent with the objectives of the investing fund;
 - (b) The investments of the target fund must be in line with the general investment principles of these Guidelines;
 - (c) The target fund must be regulated and registered/authorised/ approved by the relevant regulatory authority in its home jurisdictions; and
 - (d) There must not be any cross-holding between the investing fund and the target fund where the investing fund and the target fund are

managed and administered by the same management company, or where the target fund is managed and administered by any party related to the management company or any delegate thereof.

Fees and Charges Restriction

- (3) The management fee charged to the investing fund shall commensurate with the degree of investment strategies and techniques employed by the fund manager to achieve the stated objective.
- (4) Where the investing fund invests in target funds managed by the **same management company**,
 - (a) all initial charges on the target funds must be waived; and
 - (b) management fee must only be charged once, either at the investing fund or target fund.

Amendment to Schedule C – Appendix I (General Restriction and Limits of Non-Specialised Funds)

- 4. Under this Guidance Note, the provisions under Clause 1.0(3), Schedule C – Appendix I and Clause 1.0(7), Schedule C – Appendix II of the Guidelines are now removed.