

**Funds normally maintain a relatively low cash level even during extreme market volatility. Is this a correct investment strategy?**

Generally speaking, the investment objective of traditional funds is to achieve long-term capital growth. In this regard, fund managers normally maintain a relatively lower level of cash to support daily trading operation, so as to ensure that the funds can "invest completely" and avoid restraining a fund's ability to capture any rising momentum because of over allocation of cash, which will affect overall investment returns and performance. In times of market volatility, a rise in cash level helps reduce downside pressure of the fund when the market plunges further. Some funds even increase cash weighting to 10% or 20% to minimize volatility. Indeed, the market does not have a definition of an adequate cash exposure or correct investment strategy.

**How fund manager determines the cash level?**

It falls to the fund managers to make decisions that offer the highest benefits to investors in accordance with relevant investment objectives and situations. Fund managers can mitigate the effect of such volatility in relation to their funds by reducing the relative weighting of shares that suffer more from the market environment and add to more defensive shares.

**Does fund manager have flexibility to change the investment objective of the fund to comply with market's situation?**

It is not a normal practice for fund managers to change the investment objective of their funds frequently as a result of changes in market situations. In fact, fund managers may adjust the asset, geographic or currency allocation of the funds managed by them in accordance with the established investment objectives and policies in order to reduce overall investment risks. However, if fund managers do wish to change the investment objectives of the funds they manage, they need to follow a series of approval procedures.

Such changes should firstly be approved by the Board of Directors or the Trustee of the funds (depending on the structure of the funds), while other relevant actions may be required pursuant to the statutory requirements of various countries or regions. The offering document of the funds should be updated accordingly upon the approval of the new investment objective by the Board of Directors or the Trustee of the fund. In Hong Kong, for example, the said document should then be submitted to the SFC, the regulatory authority, for prior authorization. A prior written notice should be sent to the investors before the changes are to take effect. Fund companies should determine the period of notice and obtain approval from the SFC. Normally, a prior written notice of about 1 to 3 months should be provided to holders in respect of the changes (or such longer period as required under applicable laws and regulations or the provisions as set out in the offering or constitutive documents).

Generally, most of the fund companies offer chances for investors to switch to other funds if investors believe that the new objective does not match their own targets or risk profiles. Some fund companies even allow investors to switch free of charge. Investors can make decisions with regard to their own circumstances. In fact, the procedures or processes of changes differ with different domiciles. Investors are advised to refer to the relevant offering documents for details.

(Investment involves risk. Please refer to the offering document for further details including the risk factors.)