

Can a fund be terminated or merged with another fund? Under what circumstances would a fund be terminated or merged? How can investors stay informed?

In general, fund termination or merger is a commercial decision. One of the typical reasons for fund termination or merger is that the fund size drops below a certain level and it becomes uneconomical to manage the fund. There are certain fixed expenses and external fees that are associated in the running of a fund and when the fund size becomes too small, there will be a greater impact upon the remaining fund holders from the investor perspective.

Apart from the sinking fund size, a fund may be terminated or merged with another fund under other circumstances, e.g. a change or restructure of fund manager's business plan, changes in economic and political environment which the fund manager and trustee believe that to terminate or merge the fund would be in the best interest of investors, etc. The fund offering document will provide a summary of the circumstances in which the fund can be terminated (in general, the minimum fund size level which will trigger the termination of the fund will be included). If a fund is to be terminated or merged with another fund due to a restructure of fund manager's business or changes in economic and political environment, in general, such termination or merger has to be approved at the Extraordinary General Meeting before it comes to effect.

In the case of Hong Kong authorized funds, fund management companies need to give at least 3 months' notice to holders of any intention not to maintain fund authorization, and to give at least one month's notice to holders for fund termination or merger. Such notices should be submitted to the SFC for prior approval and contain the reasons and consequences of the withdrawal/termination/merger, any proposed changes in the operation of the fund and their effects on existing investors. If a fund is to be terminated or merged with another fund, the notice should list out the alternatives that will be available to investors and their respective costs (including, if possible, a right to switch without charges into another authorized fund) and an estimate of any relevant expenses and who is expected to bear them. Requirements may vary depending on the governing law from the country of domicile for the fund and procedures set out in the scheme's constitutive document. But in general, apart from the aforesaid requirements, the notice should include information on the latest fund size, changes in investment objectives, fee structure and other changes of the merger/restructured fund, number of units/shares exchanged (conversion ratio), effective date, total expense ratio, amount of unamortized preliminary expenses and treatment upon termination (if any), Extraordinary General Meeting date (if applicable), tax implications to HK investors, documents available for inspection and HK contact details etc. Fund managers should ensure the accuracy of the contents of the notice and remind investors the importance of the document.

In general, investors will receive the proceeds and their investment within 30 days after the fund termination date. Investors can refer to the section relating to fund termination of the offering document for further information.

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

Hong Kong Investment Funds Association