

China Life MPF Master Trust Scheme

(“China Life Scheme”)

NOTICE TO PARTICIPATING EMPLOYERS AND MEMBERS

This notice is important. Terms used in this notice (unless otherwise defined below) bear the same meaning as in the Principal Brochure January 2016 Edition of China Life Scheme. If you are in doubt about the contents of this notice, you should seek independent professional financial advice.

Summary of Key Points relating to Reduction of Guaranteed Rates of Return and net guaranteed rates of return

I. Constituent Funds of China Life Scheme Being Involved

Pursuant to Part II Clause 1(c) of Annexure B and Part II Clause 2(c) of Annexure F of the Trust Deed, we hereby give 3 months’ written notice to inform employers and Members that two Constituent Funds of China Life Scheme, namely China Life Retire-Easy Guarantee Fund (“RGU”) and China Life Guaranteed Return Fund (“GNT”) will have their guaranteed rates reduced as a result of the reduction of the guaranteed rates of each of the insurance policy approved pooled investment funds (“relevant APIF”) issued by China Life (Overseas) Company Limited Hong Kong Branch (“CLIO”) into which RGU and GNT are invested.

II. Reduction of Guaranteed Rates (“Reduction”) & Effective Date

- The Guaranteed Rate of Return of RGU will be reduced from 4.5% per annum to 3.5% per annum and the net guaranteed rate of return will be reduced from 3% per annum to 2% per annum effective from 1 January 2018.
- The Guaranteed Rate of Return of GNT will be reduced from 5% per annum to 4% per annum and the net guaranteed rate of return will be reduced from 3.5% per annum to 2.5% per annum effective from 1 January 2018.

III. Reason for the Reduction

The Reduction is due to the volatility of global bond markets and the commencement of US federal funds interest rate hike cycle.

Investments in global bonds command a major proportion of the relevant APIFs of RGU and GNT. The volatility of global bond market at the end of 2016 was higher than the past few years due to various economic and political events. These uncertainties are expected to persist and continue to affect the global bond market. In addition, interest rate hike is unfavourable to bond investments and leads to drop in bond prices and lowers the return on investment portfolios investing in bond investments due to mark-to-market loss. In view of the above, to prevent loss in bond prices in the relevant APIFs of RGU and GNT, relevant APIFs of RGU and GNT have to be invested in bonds with shorter maturity. Bonds with shorter maturity tend to have lower return. Thus the return of the bond investments of the relevant APIFs of RGU and GNT will be lower, and this lower return may lead to potential deficit (when compared with Guaranteed Rates of Return of the relevant APIFs of RGU and GNT) that the guarantor is obligated to make up. The above circumstances inevitably affect the sustainability of the current Guaranteed Rates of Return of the relevant APIFs of RGU and GNT. In view of these circumstances, as a prudent insurer and guarantor, CLIO decides to reduce the Guaranteed Rates of Return with the aim of sustaining the continuous operation of the relevant APIFs of RGU and GNT.

The sustainability of the continuous operation of the relevant APIFs of RGU and GNT is in the interest of Members investing in RGU and GNT.

IV. Actions Required

Before the implementation of the Reduction (1 January 2018):

(A) Members who invest in RGU may

- (1) choose not to take any action and continue to invest their current balances in RGU; or
- (2) maintain their same investment mandates to invest future contributions and transfer-in benefits in RGU; or
- (3) give a rebalancing instruction to switch out their current balances from RGU to other Constituent Funds of China Life Scheme or change their investment mandates to invest future contributions and transfer-in benefits in RGU to other Constituent Funds of China Life Scheme; or
- (4) transfer their benefits out from China Life Scheme to other registered schemes.

Members are reminded that they will still be entitled to guarantee entitlement under RGU in respect of the above circumstances (3) & (4) as the guarantee return is pro-rated to the daily Unit Price on each Dealing Day.

(B) Members who invest in GNT may

- (1) choose not to take any action and continue to invest their current balances in GNT; or
- (2) maintain their same investment mandates to invest future contributions and transfer-in benefits in GNT; or
- (3) (a) give a rebalancing instruction to switch out their current balances from GNT to other Constituent Funds of China Life Scheme or (b) change their investment mandates to invest future contributions and transfer-in benefits in GNT to other Constituent Funds of China Life Scheme; or
- (4) transfer their benefits out from China Life Scheme to other registered schemes.

Members are reminded that if item (B)(3)(a) or (B)(4) above is taken by Members, they will not be entitled to any guarantee entitlement under GNT for the year 2017 unless any one of the 2 conditions of withdrawal, namely (a) on the first Dealing Day on or after 1 January (or if that day is not a business day, then the first business day thereafter) of each financial period of China Life Scheme or (b) by reason of termination of employment (applicable to employee members only) are satisfied. For details of the guarantee conditions of GNT, please refer to Annexure A-2 of the Principal Brochure.

For further details, please refer to section B “Actions required by Members” below.

V. Impact of the Reduction

Members’ entitlement to guarantee return under RGU and GNT for the year 2017 will remain unchanged as the respective current net guaranteed rate of return of 3% per annum and 3.5% per annum for RGU and GNT will continue to be applied in calculating guarantee return up to 31 December 2017. The new net guaranteed rates of return of 2% per annum and 2.5% per annum will only be applied to any unit holdings in RGU and GNT respectively commencing from 1 January 2018.

Other than the Reduction, the investment objectives and policies, risk profiles, fee structures of RGU, GNT, the respective relevant APIF and underlying unit trust approved pooled investment funds and the guarantee mechanisms of RGU, GNT and the respective relevant APIF will remain unchanged. **All costs and expenses incurred in relation to the Reduction will be borne by the Approved Trustee. No fees or charges nor bid and offer spread will be imposed on any rebalancing instructions, change of**

investment mandate or transfer out of China Life Scheme as a result of the Reduction.

VI. Governance

The Reduction has been duly endorsed by the board of directors of the Approved Trustee and the relevant provisions of the constitutive documents of China Life Scheme governing the Reduction have been complied with. Members may contact our hotline 3999 5555 in case of any queries regarding the Reduction.

A. Reduction of Guaranteed Rates of Return and net guaranteed rates of return of RGU and GNT

Under China Life Scheme, RGU and GNT take the form of feeder funds, i.e. each invests solely in a relevant APIF issued by CLIO and in turn solely invests in an underlying unit trust approved pooled investment fund (“underlying APIF”). **Pursuant to Part II Clause 1(c) of Annexure B and Part II Clause 2(c) of Annexure F of the Trust Deed, we hereby give 3 months’ written notice to inform employers and Members of CLIO’s (the insurer and guarantor of the relevant APIF) exercise of discretion under the empowering provisions of the relevant APIFs as follows:**

- (i) **to reduce the current Guaranteed Rate of Return of the relevant APIF of RGU from 4.5% per annum to 3.5% per annum with effect from 1 January 2018;**
- (ii) **to reduce the current Guaranteed Rate of Return of the relevant APIF of GNT from 5% per annum to 4% per annum with effect from 1 January 2018.**

As RGU and GNT take the form of feeder funds, reductions of the current Guaranteed Rates of Return in (i) and (ii) above will be made to the corresponding Constituent Funds, i.e. in RGU and GNT respectively effective from 1 January 2018 as follows:

- **In respect of RGU, the current Guaranteed Rate of Return will be reduced from 4.5% per annum to 3.5% per annum and the current net guaranteed rate of return of 3% per annum for calculating guarantee return will be reduced to 2% per annum.**
- **As for GNT, the current Guaranteed Rate of Return will be reduced from 5% per annum to 4% per annum and the current net guaranteed rate of return of 3.5% per annum for calculating guarantee return will be reduced to 2.5% per annum.**

The reduction of the current Guaranteed Rates of Return and net guaranteed rates of return of RGU and GNT is referred to as “Reduction of Rate”.

We are informed that the exercise of discretion to reduce the Guaranteed Rates of Return of the relevant APIFs of RGU and GNT by CLIO is attributable to the volatility of global bond markets and the commencement of US federal funds interest rate hike cycle.

Investments in global bonds command a major proportion of the relevant APIFs of RGU and GNT. The volatility of global bond market at the end of 2016 was higher than the past few years due to various economic and political events. These uncertainties are expected to persist and continue to affect the global bond market. In addition, interest rate hike is unfavourable to bond investments and leads to drop in bond prices and lowers the return on investment portfolios investing in bond investments due to mark-to-market loss. In view of the above, to prevent loss in bond prices in the relevant APIFs of RGU and GNT, relevant APIFs of RGU and GNT have to be invested in bonds with shorter maturity. Bonds with shorter maturity tend to have lower return. Thus the return of the bond investments of the relevant APIFs of RGU and GNT will be lower, and this lower return may lead to potential

deficit (when compared with Guaranteed Rates of Return of the relevant APIFs of RGU and GNT) that the guarantor is obligated to make up. The above circumstances inevitably affect the sustainability of the current Guaranteed Rates of Return of the relevant APIFs of RGU and GNT. In view of these circumstances, as a prudent insurer and guarantor, CLIO decides to reduce the Guaranteed Rates of Return with the aim of sustaining the continuous operation of the relevant APIFs of RGU and GNT.

B. Actions required by Members

Before implementation of the Reduction of Rate (1 January 2018):

1. Members who invest in RGU

- (i) Members may choose not to take any action and continue to invest their current balances in RGU. However, these Members please note the net guaranteed rate of return of RGU is pro-rated on a daily basis and applied in calculating the daily Unit Price on each Dealing Day. If Members with unit holdings in RGU decide not to take any action in relation to the Reduction of Rate of RGU, their guarantee entitlements previously accrued and any guarantee entitlements calculated prior to such reduction (i.e. up to 31 December 2017) will not be affected as the guarantee return calculated under the current net guaranteed rate of return of 3% per annum will have been pro-rated to the daily Unit Price. The new Guaranteed Rate of Return and net guaranteed rate of return of RGU will be applied to any unit holdings in RGU starting from 1 January 2018; or
- (ii) Members whose investment mandates are to invest future contributions and transfer-in benefits in RGU may maintain the same investment mandates in view of the Reduction of Rate of RGU. The future contributions and transfer-in benefits of these Members will continue to be invested in RGU in accordance with their investment mandates; or
- (iii) Members may choose to give a rebalancing instruction to switch out their current balances from RGU to other Constituent Funds of China Life Scheme or change their investment mandates to invest future contributions and transfer-in benefits in RGU to other Constituent Funds of China Life Scheme.

If Members choose to give rebalancing instructions to switch out current balances from RGU to other Constituent Funds of China Life Scheme and maintain the same investment mandate to invest future contributions and transfer-in benefits in RGU, they will only need to give us an instruction for rebalancing. On the other hand, if Members choose to change investment mandates to invest future contributions and transfer-in benefits in RGU to other Constituent Funds of China Life Scheme and continue to invest current balances in RGU, they will only need to give us an instruction for change of investment mandate. In case Members choose to give rebalancing instructions to switch out current balances from RGU and change investment mandates from RGU to other Constituent Funds of China Life Scheme, they will have to give separate instruction to us for processing both rebalancing and change investment mandates; or

- (iv) Members who wish to have their benefits transfer out from China Life Scheme to other registered schemes may choose to do so by notifying us in writing in accordance with the section “TRANSFER OF ACCRUED BENEFITS” of the Principal Brochure.

Members are reminded that they will still be entitled to guarantee entitlement under RGU in respect of the above circumstances (iii) & (iv) as the guarantee return is pro-rated to the daily Unit Price on each Dealing Day.

2. Members who invest in GNT

- (i) Members may choose not to take any action and continue to invest their current balances in GNT. In respect of GNT, the net guarantee return is reflected in Members’ Account on an annual basis. If Members with unit

holdings in GNT decide not to take any action in relation to the Reduction of Rate of GNT, their guarantee entitlements previously accrued and any guarantee entitlements calculated prior to such reduction (i.e. up to 31 December 2017) will not be affected as the net guarantee return of 3.5% per annum will have been reflected in Members' Account. The new Guaranteed Rate of Return and net guaranteed rate of return of GNT will be applied to any unit holdings in GNT starting from 1 January 2018.

- (ii) Members whose investment mandates are to invest future contributions and transfer-in benefits in GNT may maintain the same investment mandates in view of the Reduction of Rate of GNT. The future contributions and transfer-in benefits of these Members will continue to be invested in GNT in accordance with their investment mandates; or
- (iii) Members may choose to (a) give a rebalancing instruction to switch out their current balances from GNT to other Constituent Funds of China Life Scheme or (b) change their investment mandates to invest future contributions and transfer-in benefits in GNT to other Constituent Funds of China Life Scheme.

If Members choose to give rebalancing instructions to switch out current balances from GNT to other Constituent Funds of China Life Scheme and maintain the same investment mandate to invest future contributions and transfer-in benefits in GNT, they will only have to give us an instruction for rebalancing. On the other hand, if Members choose to change investment mandates to invest future contributions and transfer-in benefits in GNT to other Constituent Funds of China Life Scheme and continue to invest current balances in GNT, they will only need to give us an instruction for change of investment mandate. In case Members choose to give rebalancing instructions to switch out current balances from GNT and change investment mandates from GNT to other Constituent Funds of China Life Scheme, they will have to give separate instruction to us for processing both rebalancing and change investment mandates; or

- (iv) Members who wish to have their benefits transfer out from China Life Scheme to other registered schemes may choose to do so by notifying us in writing in accordance with the section "TRANSFER OF ACCRUED BENEFITS" of the Principal Brochure.

Members are reminded that if either item 2(iii)(a) or (iv) above is taken by Members, they will not be entitled to any guarantee entitlement under GNT for the year 2017 unless any one of the 2 conditions of withdrawal, namely (a) on the first Dealing Day on or after 1 January (or if that day is not a business day, then the first business day thereafter) of each financial period of China Life Scheme or (b) by reason of termination of employment (applicable to employee members only) are satisfied. For details of the guarantee conditions of GNT, please refer to Annexure A-2 of the Principal Brochure.

Please note that no fees or charges nor bid and offer spread will be imposed on any rebalancing instructions, change of investment mandate, or transfer out of China Life Scheme as a result of Reduction of Rate.

C. Impact on Members

All costs and expenses associated with Reduction of Rate in respect of RGU and GNT will be solely borne by us. Other than the Reduction of Rate of RGU and GNT, there will be **no change** to

- (i) the investment objectives and policies, risk profiles and fee structures of RGU, GNT, their relevant APIFs and underlying APIFs; and
- (ii) the guarantee mechanism of RGU, GNT and their relevant APIFs.

With the provision of information and explanation in items 1 and 2 of section B "Actions required by Members"

above to enable Members to consider their rights and available options arising from the Reduction of Rate coupled with no change on investment objectives and policies, risk profiles, fees structures of RGU, GNT, their respective relevant APIFs and underlying APIFs and guarantee mechanism of RGU, GNT and their relevant APIFs stated above, we believe that **the accrued benefits** of Members who invest in RGU and/or GNT or whose investment mandates are to invest future contributions and transfer-in benefits in RGU and/or GNT will be adequately protected and will not be materially prejudiced.

The Annexures of the Trust Deed as well as the latest Principal Brochure have been amended to reflect the above changes by way of the eighteenth deed of variation and the Third Addendum respectively and will be available for inspection at our office at 17/F, CLI Building, 313 Hennessy Road, Wanchai, Hong Kong. The latest Principal Brochure including the First Addendum, the Second Addendum and the Third Addendum can also be obtained free of charge by accessing our website www.chinalifetrustees.com.hk. Alternatively, Members may contact our hotline 3999 5555 for any queries regarding the above matters.

China Life Trustees Limited

27 September 2017

This is a computer printout and no signature is required.