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The Manager accepts full responsibility for the accuracy of the information contained in this Announcement and confirm, having made all reasonable enquiries, that to the best of its knowledge and belief there are no other facts the omission of which would make any statement misleading and that opinions expressed in this Announcement have been arrived at after due and careful consideration.

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## **W.I.S.E. – SSE 50 China Tracker®\***

(\*This is a synthetic ETF)

## **標智上證 50 中國指數基金®\***

(\*此基金為一隻合成交易所買賣基金)

## **a sub-fund of the World Index Shares ETFs**

(a Hong Kong unit trust authorized under section 104 of the Securities and Futures Ordinance<sup>1</sup> (Cap. 571 of the laws of the Hong Kong SAR))

**(Stock Code: 03024)**

## **Announcement – Change of Investment Strategy from Synthetic to Physical Replications**

The Manager of W.I.S.E. – SSE 50 China Tracker® (\*This is a synthetic ETF) (the “Fund”) hereby announces that the Fund shall be changed from synthetic to physical replication.

Reference is made to the announcement dated 11 December 2014 in relation to the Fund's direct investment (the “**Direct Investment Route**”) in certain eligible A Shares via the Shanghai-Hong Kong Stock Connect (“**Stock Connect**”), in addition to its indirect investment in A Shares through the AXPs (the “**AXP Route**”).

The Manager would like to inform investors of the Fund that the Fund shall change its investment strategy from synthetic replication (i.e. investing through both the AXP Route and the Direct Investment Route) to physical replication (i.e. investing through Direct Investment Route) (the “**Change**”) in order to achieve its investment objective. The remaining AXPs will be converted to direct purchase of A Shares via Stock Connect during the Switch Period (as defined below).

<sup>1</sup> SFC authorization is not a recommendation or endorsement of the Fund nor does it guarantee the commercial merits of the Fund or its performance. It does not mean the Fund is suitable for all investors nor is it an endorsement of its suitability for any particular investor or class of investors.

The Change will be effected between 4 May 2015 and 12 May 2015 (the “**Implementation Period**”), such that, by 13 May 2015 at the latest, the Fund will be adopting the Direct Investment Route only. An announcement (the “**Completion Announcement**”) will be published on the Manager's website<sup>2</sup> at [www.boci-pru.com.hk/english/etf/intro.aspx](http://www.boci-pru.com.hk/english/etf/intro.aspx) (for the English version) and [www.boci-pru.com.hk/chinese/etf/intro.aspx](http://www.boci-pru.com.hk/chinese/etf/intro.aspx) (for the Chinese version) (the “**Manager’s Website**”) and the website of the Hong Kong Exchanges and Clearing Limited (<http://www.hkex.com.hk>) (the “**HKEx’s Website**”) no later than the following day on which the Change is completed (i.e. the relevant trades for the Change have fully executed) and before the commencement of trading of Units on the SEHK. It is expected that the Completion Announcement will disclose (a) the date on which the Change has completed and the effective date on which the Fund only invests through the Direct Investment Route (the “**Effective Date**”); (b) the change of the name of the Fund with effect from the Effective Date; and (c) the change of the stock short name of the Fund. The removal of the marker “X” from the stock short name of the Fund is expected to take effect on the next Hong Kong trading day following the Effective Date (please refer to the risk factors in Appendix 1 to this announcement with regard to the removal of the marker “X”).

Currently, the Fund seeks to track the performance of SSE 50 by primarily investing in AXP’s, which are derivative instruments. Once the Change is effective, the Fund will achieve its investment objective by adopting representative sampling strategy through directly investing in a portfolio of securities via Stock Connect.

Please note that the Change concerns only the way the Fund achieves its investment objective of tracking the performance of SSE 50 and as a result the risks to which the Fund may be subject to would be different. Please refer to Appendix 1 to this announcement for further details.

The Change does not require the Unitholders’ approval pursuant to the constitutive documents of the Fund or any applicable laws and regulations. Furthermore, the Trustee has confirmed that it does not have any comments on the Change.

Further information regarding the Fund’s direct investment will be contained in the revised prospectus of the Fund (the “**Revised Prospectus**”) and the revised Product Key Facts Statement of the Fund (the “**Revised KFS**”) upon the Effective Date. Please note that the Dealing Deadline for creation and redemption of Units will also be amended in the Revised Prospectus. Please refer to page 4 of the announcement for more details.

Soft copies of the Revised Prospectus and Revised KFS will be available from the Manager’s Website and the HKEx’s Website upon the Effective Date. Hard copies may also be obtained from the Manager at 27th Floor, Bank of China Tower, 1 Garden Road, Central, Hong Kong free of charge.

Unitholders’ attention is specifically drawn to:

- Appendix 1 to this announcement which contains a general discussion of the additional risk factors to which the Fund may be subject during the Implementation Period, the Switch Period and the period following the Change;
- the fact that the Change will occur during the Implementation Period, and that

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<sup>2</sup> Information contained in the Manager’s website has not been reviewed by the SFC.

information will be published in the Completion Announcement. The Manager will closely monitor the situation to seek to implement the Change in an orderly and timely way. Please refer to the risk factors under section A in Appendix 1 for the relevant risk factors during the Implementation Period;

- it is expected that the marker “X” which is currently placed at the beginning of the stock short name of the Fund, will remain until the next Hong Kong trading day following the Effective Date despite the completion of the Change. Please refer to the risk factors under section A in Appendix 1 for the relevant risk factors during the Implementation Period;
- the Fund is currently in a hybrid status of both synthetic and physical replications. For a short period of time (the “**Switch Period**”) when the Fund is in the process of effecting the Change, the Fund will sell the Remaining AXP and will purchase A Shares via Stock Connect (the “**Conversion Process**”). The Fund will, during the Switch Period, still be in the hybrid status, and thus still be subject to both the risks associated with indirect investment via AXPs (such as collateral risks) as well as the risks associated with direct investment (such as risks relating to Stock Connect). The relevant collateral obtained from the AXP issuer(s) or the affiliate(s) of the AXP issuer(s) and held by the Fund will be returned to the AXP issuer(s) or the affiliate(s) of the AXP issuer(s) after the existing relevant AXP is unwound. During the Conversion Process, transaction costs may be incurred in selling the AXPs and purchasing A Shares. In exceptional circumstances, it is possible that the purchase per conversion may not be completed in one trading day due to market circumstances or other reasons, resulting in the Switch Period being delayed. The Manager will seek to minimise the duration of the Switch Period whilst taking into account prevailing market conditions and acting in the best interests of investors. Following the completion of the Conversion Process, the Fund will cease to use AXPs. Please refer to the risk factors under section B in Appendix 1 for the relevant risk factors during the Switch Period;
- the fact that, following the Change, in relation to subscription or redemption of Units, the procedures for in-kind Creation Application and in-kind Redemption Application will be removed;
- the fact that, following the Change, transaction costs, including any taxes, may be incurred by the Fund;
- the fact that the Unitholders may need to reassess to what extent the Change will affect their tax position on their investment in the Fund. Unitholders may wish to seek professional tax advice where appropriate; and
- the fact that, following the Change, the name of the Fund will be changed as follows:

*Current name:*

W.I.S.E. – SSE 50 China Tracker<sup>®</sup>\* (\*This is a synthetic ETF)

標智上證50中國指數基金<sup>®</sup>\* (\*此基金為一隻合成交易所買賣基金)

*Name following the Change:*

W.I.S.E. – SSE 50 China Tracker<sup>®</sup>

標智上證50中國指數基金<sup>®</sup>

The Manager envisages that the costs associated with the Change will include legal fees, the costs of selling back AXP and costs associated with acquiring A Shares, e.g. brokerage fees. However, considering that the Direct Investment Route will have fewer fee items

such as AXP maintenance fees, collateral fees, etc., the Manager considers that the Change is beneficial to the Fund.

The investment objective of the Fund and SSE 50 will remain unchanged.

Save as the above, the Manager believes that the Change will not have a material adverse impact on Unitholders.

### **Extension of Dealing Deadline**

Please note that the Manager will also amend in the Revised Prospectus the Dealing Deadline for creation and redemption of Units by extending the Dealing Deadline from “3:00 p.m. on the previous Business Day before the Dealing Day” to “10:00 a.m. on the Dealing Day”. After amendment, the dealing periods for creation and redemption of Units will be as follows:

“For any creation, the dealing period on each Dealing Day commences at 12:00 noon on the previous Business Day before the Dealing Day and ends at the Dealing Deadline at 10:00 a.m. on the Dealing Day.”

“For any redemption, the dealing period on each Dealing Day commences at 12:00 noon on the previous Business Day before the Dealing Day and ends at the Dealing Deadline at 10:00 a.m. on the Dealing Day.”

Terms not defined in this Announcement will have the meanings as are given to such terms in the Prospectus.

Investors who have any enquiries regarding the above may contact the Manager at 27th Floor, Bank of China Tower, 1 Garden Road, Central, Hong Kong or our enquiry hotline at (852) 2280 8697.

20 April 2015

## **Appendix 1**

### **Additional risk factors**

#### A. The Implementation Period

*Timing of issuing the Completion Announcement:* The Completion Announcement will only be published on the Manager's Website and HKEx's Website no later than the following day on which the Change is completed (i.e. the relevant trades for the Change have fully executed) and before the commencement of trading of the Units on the SEHK. Unitholders should also note that the removal of the marker "X" from the stock short name is expected to take effect on the next Hong Kong trading day following the Effective Date.

Accordingly, it is expected that the marker "X" in the stock short name of the Fund will be retained until the next Hong Kong trading day following the Effective Date despite the completion of the Change.

*Failure to implement the Change:* It is proposed that the Change will occur progressively within the Implementation Period (i.e. between 4 May 2015 and 12 May 2015). However, there can be no assurance that the Change can be implemented in an orderly and timely way, or be implemented at all. The Manager seeks to mitigate this risk by closely monitoring the implementation of the Change.

An announcement will also be published on the Manager's Website and HKEx's Website as soon as practicable in the event the Change is not implemented within the Implementation Period, informing investors of the same and any further action to be taken by the Fund.

#### B. The Switch Period

During the Switch Period, the Fund will be exposed to collateral risk, risk of default of broker(s), synthetic replication risk, direct investment risk and tracking error risk, divergence of the selling price of AXPs and execution price of the A Shares risk and front-running risk.

*Collateral risk:* The Manager will seek to obtain collateral to mitigate its exposure to each AXP issuer. However, this is subject to the risk of the collateral provider not fulfilling its obligations. There is a further risk that in the event that the Trustee may need to exercise its right against the collateral, the market value of the collateral could be substantially lower than the amount secured and so the Fund may suffer significant losses, etc.

As a result of the Collateral Management Policy (as more fully described in the Prospectus), the Fund will have to bear an increase in fees, charges and expenses in relation to the additional collateral taken by the Fund. The increased cost may have an adverse impact on the NAV and the performance of the Fund and the changes in the NAV of the Fund may deviate from the performance of SSE 50 and may give rise to increased tracking error.

*Risk of default of broker(s):* Investment through Stock Connect is conducted through broker(s) and is subject to the risks of default by such broker(s) in its/their obligations.

*Synthetic replication risk and direct investment risk:* In effecting the Change, the AXP's will be unwound and the Fund will purchase A Shares. It is possible that the purchase per conversion may not be completed in one trading day due to market circumstances or other reasons. In such circumstances, the portfolio of the Fund may be partially exposed to indirect investment via AXP's (and the risks associated with synthetic replication (in relation to its investments in AXP's)) and partially exposed to direct investments in A Shares (in relation to its investments via Stock Connect). In other words, the Fund may still be subject to the risks the Fund is currently exposed to, such as counterparty risk and collateral risk and risks associated with Stock Connect, as currently disclosed in the Prospectus, during the Switch Period.

*Tracking error risk:* Given that the portfolio of the Fund may be partially exposed to indirect investment via AXP's (and the risks associated with synthetic replication (in relation to its investments in AXP's)) and partially exposed to direct investments in A Shares (in relation to its investments via Stock Connect), the Fund's returns may display a different tracking error compared with previously displayed when mainly adopting an indirect AXP Route (i.e. synthetic replication).

*Divergence of the selling price of AXP's and execution price of the A Shares risk:* The selling price of AXP's may differ from the execution price of the A Shares, because the AXP's and the A Shares will be executed at the market price prevailing at the time of execution. The Manager however envisages that, subject to intra-day volatility, the price differences should not be material given the duration between the valuation point for the latest available closing price of the AXP's and the price of the A Shares should be not more than one trading day.

*Front-running risk:* Brokers may trade unethically based on information from research analysts before passing the information to the Fund. However, the Manager envisages that the risk of front-running can be mitigated by contractual arrangement with the brokers, and the fact that same day trading is not allowed for Stock Connect in that A Shares bought on T-day can only be sold on or after T+1 day.

### C. The Period following the Change

#### *Risks associated with direct investment in A Shares via Stock Connect:*

In addition to the risks associated with the China market and risks relating to RMB, the Fund may also be subject to the additional risks in investing in A Shares via Stock Connect, e.g. quota limitation, suspension risk, differences in trading day, operational risk, restrictions on selling imposed by front-end monitoring, clearing and settlement risk, counterparty risk relating to brokers and regulatory risk etc.

#### *Potential impact on tracking error and risks in relation to the tracking of SSE 50:*

Due to various factors, including the Fund's fees and expenses involved, the concentration limits described in the investment restrictions, other legal or regulatory restrictions, the need for the Manager to adopt a representative sampling strategy and, in certain instances, certain securities being illiquid, it may not be possible or practicable to purchase certain of the constituents at all. The Fund will be subject to a greater tracking error in such circumstances.

Factors that are likely to affect the ability of the Fund to track the performance of SSE 50 following the Change, and which may therefore increase tracking error, include:

- the composition of the Fund's portfolio deviating from time to time from the composition of SSE 50, especially in case not all components of SSE 50 can be held and/or traded by the Fund;
- investment, regulatory and/or tax constraints (including investment restrictions) affecting the Fund but not SSE 50;
- constraints linked to the timing of rebalancing of the Fund's portfolio; and
- transaction costs and other fees, taxes and expenses to be borne by the Fund.

*Other risks:* The Fund will continue to be subject to other risks as disclosed in the "Risk Factors" section in the Revised Prospectus and "What are the key risks?" section in the Revised KFS of the Fund.