

China Life Franklin Diversified Income Fund (the “Trust”)

This announcement and notice is important and requires your immediate attention. If you are in any doubt about the contents of this announcement and notice, you should seek independent professional financial advice.

China Life Franklin Asset Management Co., Limited (the “**Manager**”) accepts full responsibility for the accuracy of the information contained in this announcement and notice and confirms, 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.

Capitalised terms used herein shall bear the same meanings as capitalised terms used in the Explanatory Memorandum for the Trust dated 29 April 2020, as may be amended and supplemented from time to time (the “**Explanatory Memorandum**”).

27 November 2020

Dear Investor,

ANNOUNCEMENT AND NOTICE OF PROPOSED CHANGE OF PERFORMANCE FEE, MANAGEMENT FEE, TRUSTEE FEE, PROPOSED AMENDMENT OF TRUST DEED AND IMPLEMENTATION OF SUBSCRIPTION CHARGE

NOTICE OF EXTRAORDINARY GENERAL MEETING

We, China Life Franklin Asset Management Co., Limited, as the manager of the Trust, wish to inform investors of the following proposed and/or upcoming changes with respect to the Trust, which are proposed to take effect on 1 January 2021 (the “**Effective Date**”):

A. Proposed changes

(i) Change of performance fee

With effect from the Effective Date and subject to the amendment of the Trust Deed as set out under section (A)(ii) below, the performance fee payable in respect of HKD Class, USD Class 1 and USD Class 2 Units will be changed such that the percentage level of the High Water Mark will be lowered from 108% to 102.8% (or such other percentage as may from time to time be determined by the Manager with the approval of the Trustee and with not less than one month’s notice to the relevant Unitholders of the relevant Class) (the “**Performance Fee Change**”).

Currently, the applicable High Water Mark as of the date of this announcement and notice is HK\$12.868092, which is equivalent to HK\$11.9149 times 108%, HK\$11.9149 being the Period-End NAV per Unit of the Performance Period ending 31 December 2017 and currently the highest Period-End NAV per Unit since the launch of the Trust.

Based on the historical performance of the Trust, the Manager anticipates that the estimated Net Asset Value per Unit of the Trust as on 31 December 2020 will exceed the current applicable High Water Mark. As a result, a performance fee is expected to be payable to the Manager for the Performance Period ending 31 December 2020, and the High Water Mark will be reset to a higher value following the payment of performance fees. The new High Water Mark will be applicable to the Performance Period ending 31 December 2021 and thereafter, and will be adjusted as a result of the Performance Fee Change.

Under the current performance fee mechanism, the new High Water Mark would have been an estimated figure of HK\$14.124820, being the estimated Net Asset Value per Unit of the Trust as of 31 December 2020 after payment of performance fees, times 108%.

Once the Performance Fee Change is implemented, the new High Water Mark is estimated to be HK\$13.444736, being the estimated Net Asset Value per Unit of the Trust as of 31 December 2020 after payment of performance fees, times 102.8%.

For the avoidance of doubt, this means that the current percentage level of the High Water Mark of 108% will continue to apply in respect of the present Performance Period which commenced on 1 January 2020 and will end on the last Valuation Day of year 2020 (both days inclusive). Subject to the amendment to the trust deed of the Trust (the “**Trust Deed**”) and approval of the Unitholders as described at section (A)(ii) below, the entirety of the upcoming Performance Period, being the period commencing on 1 January 2021 and ending on the last Valuation Day of year 2021 (both days inclusive), will be subject to the reduced percentage level of the High Water Mark of 102.8%.

(ii) Amendment to the Trust Deed

The Manager proposes to amend the Trust Deed on the Effective Date by deleting and replacing Clause 29.5 of the Trust Deed in order to empower the Manager to implement the Performance Fee Change, such that the wording “108 per cent.” of Clause 29.5 will be replaced by “102.8 per cent. (or such other percentage as may from time to time be determined by the Manager with the approval of the Trustee and with not less than one months’ notice to the relevant Unitholders of the relevant Class)”. The proposed revision to Clause 29.5 is set out in **bold** as follows:

“29.5 A performance fee will be payable to the Manager if the Net Asset Value per Unit of the relevant Class (as defined below), calculated on the relevant Performance Fee Valuation Day, is greater than the Base Net Asset Value per Unit of that Class (as defined below).

The fee payable shall be calculated as follows:

$$\frac{(A - B) \times C \times D}{E}$$

where:

- A = the Net Asset Value per Unit of the relevant Class, calculated on the relevant Performance Fee Valuation Day, after deduction of all fees (excluding the performance fee payable in the Relevant Performance Period, if any) and distributions which has been declared or paid in respect of the Relevant Performance Period.
- B = the Base Net Asset Value per Unit of the relevant Class which shall be ~~108 per cent.~~ **102.8 per cent. (or such other percentage as may from time to time be determined by the Manager with the approval of the Trustee and with not less than one months’ notice to the relevant Unitholders of the relevant Class)** of the greater of HK\$10 and the Net Asset Value per Unit of the relevant Class as at the Performance Fee Valuation Day of the preceding Relevant Performance Period in relation to which a performance fee was last calculated and paid (after deduction of all fees (including the performance fee paid in the preceding Relevant Performance Period, if any) and all distributions which have been declared or paid in respect of such preceding Relevant Performance Period).
- C = the aggregate number of Units of the relevant Class in issue during the Relevant Performance Period, calculated by adding the total number of Units of that Class in issue as at the Valuation Point on each Valuation Day of the Relevant Performance Period.
- D = 10 per cent. per annum or, subject to the approval of the Unitholders of Units of the relevant Class by Extraordinary Resolution (which approval shall, for the avoidance of doubt, only be required in connection with a proposal to increase such rate), such other percentage figure as the Manager may from time to time specify.
- E = the number of Valuations Days in the Relevant Performance Period.”

Pursuant to Clause 36.2 of the Trust Deed, the amendment to the Trust Deed described above requires Unitholders to pass an extraordinary resolution (the “**Resolution**”) (as set out in the accompanying Notice of Extraordinary General Meeting) at a meeting of Unitholders of HKD Class, USD Class 1 and USD Class 2 Units (the “**EGM**”). Please refer to section F below if you wish to attend and/or vote at the EGM.

(iii) Reduction of management fee

With effect from the Effective Date, the percentage level of management fee payable by Unitholders of HKD Class and USD Class 1 Units will be reduced from 1.2% per annum to 0.8% per annum.

For the avoidance of doubt, the percentage level of management fee payable by Unitholders of USD Class 2 Units, being 0.8% per annum, and the maximum percentage level of management fee payable with respect to HKD Class, USD Class 1 and USD Class 2 Units, being 5.0% per annum, will remain unchanged.

As a result, the current and maximum level of management fee applicable to HKD Class, USD Class 1 and USD Class 2 before and on and after the Effective Date are (and will be) as follows:

<u>Class</u>	<u>Before the Effective Date</u>	<u>On and after the Effective Date</u>
HKD Class and USD Class 1	1.2% per annum of the Net Asset Value (up to a maximum of 5.0% per annum of the Net Asset Value, paid monthly)	0.8% per annum of the Net Asset Value (up to a maximum of 5.0% per annum of the Net Asset Value, paid monthly)
USD Class 2	0.8% per annum of the Net Asset Value (up to a maximum of 5.0% per annum of the Net Asset Value, paid monthly)	

(iv) Reduction of trustee fee

With effect from the Effective Date, the percentage level of trustee fee payable by Unitholders of HKD Class and USD Class 1 Units will be reduced from 0.5% per annum to 0.4% per annum.

For the avoidance of doubt, the percentage level of trustee fee payable by Unitholders of USD Class 2 Units, being 0.35% per annum, will remain unchanged.

As a result, the trustee fee applicable to HKD Class, USD Class 1 and USD Class 2 before and on and after the Effective Date are (and will be) as follows:

<u>Class</u>	<u>Before the Effective Date</u>	<u>On and after the Effective Date</u>
HKD Class and USD Class 1	0.5% per annum of the Net Asset Value	0.4% per annum of the Net Asset Value
USD Class 2	0.35% per annum of the Net Asset Value	

B. Implementation of subscription charge

Under the Trust Deed, any subscription charge payable shall be equal to such percentage of the Issue Price of the relevant Unit as the Manager may in its discretion select in respect of each class but not exceeding a maximum of 5% or such higher figure as the Manager with the approval of the Trustee may determine (subject to the applicable requirements of the SFC's Code on Unit Trusts and Mutual Funds).

Currently, no subscription charge is charged on the subscription of HKD Class, USD Class 1 or USD Class 2 Units.

With effect from the Effective Date, subscriptions of HKD Class, USD Class 1 and USD Class 2 Units made through a distributor appointed by the Manager will be subject to a subscription charge. The subscription charge shall be charged by the Manager on behalf of the distributor on the issue of each Unit upon the request of the distributor.

The applicable subscription charge for each of HKD Class, USD Class 1 and USD Class 2 may vary depending on the distributor through which a subscription of Units is made, but will be subject to a cap of 3% of the Issue Price.

Any further increase in the applicable subscription charge up to the maximum percentage level of 5% as permitted under the Trust Deed shall only take effect at the expiration of not less than one months' notice to the relevant Unitholders of the relevant Class.

C. Reasons for the Performance Fee Change

Following a recent review of the existing fee structure of the Trust and those of other similar authorised funds within the market, the Manager is of the view that it will be in the best interests of the existing investors of the Trust enhance the performance-based aspect of the Manager's remuneration, which the Manager considers to be an appropriate form of incentive system to encourage the Manager to continue generating return to investors and providing a steady capital growth to Unitholders within the ambit of the existing investment objective, strategy and restrictions of the Trust. The reduction of the percentage level of the High Water Mark, currently 108%, in calculating the performance fee would mean that the total remuneration payable to the Manager would be more aligned to the performance of the Trust and its investment objective.

In order to maintain the competitiveness of the Trust within the market and to ensure that the Performance Fee Change will be in the best interests of the existing investors of the Trust, the Manager will simultaneously reduce the percentage level of management fee payable by investors of HKD Class and USD Class 1 Units (as described at section (A)(iii) above) to offset the increase in remuneration to the Manager as result of the Performance Fee Change. The Trustee will also reduce the percentage level of trustee fee payable by investors of HKD Class and USD Class 1 Units as described at section (A)(iv) above. The Manager expects that the significant reduction in management fees and trustee fees would allow existing Unitholders to benefit from a reduction in total fees even after the Performance Fee Change is taken into account.

In light of the above and following an analysis of the historical average return of the Trust and the effect of the Performance Fee Change on the ongoing charges payable by investors, the Manager considers the proposed percentage level of 102.8% to be an appropriate benchmark for assessing the Manager's performance.

In respect of USD Class 2 Units, given the relatively high minimum initial subscription, minimum subsequent subscription, minimum holding and minimum redemption amounts of USD Class 2 Units, the Manager considers the current percentage level of management fee and trustee fee payable by investors of USD Class 2 Units to be a fair reflection of the costs required to management and administer USD Class 2 Units, and has therefore not proposed any corresponding decrease in percentage levels. As there are currently no USD Class 2 Unitholders, the Manager is of the view that this will not be detrimental to the existing investors of the Trust.

D. Impact on ongoing charges of the Trust

Based on the Manager's recent calculations conducted on (and based on figures available as of) 17 November 2020, as set out below, the Manager does not expect that there would be any potential increase of total fees for existing Unitholders (who are all currently Unitholders of HKD Class units) as a result of the Performance Fee Change and reduction of trustee fees and management fees. Please refer to the table below for an illustration of a comparison of the expected total fees to be payable by existing Unitholders:

	Current fee regime (percentage level of 108%)	Proposed fee regime (percentage level of 102.8%)
Net Asset Value per Unit as of 31 December 2019	HK\$12.598	HK\$12.598
Estimated Net Asset Value per Unit as of 31 December 2020 (= A) <i>(assuming a return of 4% per annum, based on the historical performance of the Trust)</i>	HK\$13.101920	HK\$13.101920
Current High Water Mark (= B)	HK\$12.868092	HK\$12.868092 <i>(The applicable High Water Mark remains unchanged as the proposed new percentage level of</i>

(i.e. HK\$11.9149*108%, HK\$11.9149 being the Period-End NAV per Unit of the Performance Period ending 31 December 2017 and currently the highest Period-End NAV per Unit since the launch of the Trust)		102.8% will only take effect from 1 January 2021 onwards)
Since the Net Asset Value per Unit as of 31 December 2020 is expected to exceed the current High Water Mark, it is expected that, following 31 December 2020, a performance fee (of 10% of the excess Net Asset Value per Unit as of 31 December 2020 above applicable High Water Mark) will be payable and the High Water Mark will be reset.		
Estimated new High Water Mark (= C) (i.e. the Net Asset Value per Unit as of 31 December 2020 after payment of performance fees times the applicable percentage level of High Water Mark)	HK\$14.124820 (=(A-(A-B)*10%)*108%)	HK\$13.444736 (=(A-(A-B)*10%)* 102.8%)
The estimated ongoing charges figures under current fee regime and proposed fee regime following the reset of the High Water Mark on 31 December 2020		
Net Asset Value per Unit as of 31 December 2020 (= A-(A-B)*10% = D) (i.e. the estimated Net Asset Value per Unit as of 31 December 2020 following payment of performance fees)	HK\$13.0785372	HK\$13.0785372
Estimated Net Asset Value per Unit as of 31 December 2021 (= D*104% = E) (assuming a return of 4% per annum, based on the historical performance of the Trust)	HK\$13.601679	HK\$13.601679
Fees (% of Net Asset Value, where applicable) (Figures in HK\$ are rounded to the nearest integral while % figures are rounded to the nearest 2 decimal places)		
Performance fee rate	10%	10%
Performance fee (= (E-C)*10%*total number of HKD Class units@)	0.00%, i.e. HK\$0	0.12%, i.e. HK\$5,951,611
Trustee Fee	0.50%, i.e. HK\$25,790,222	0.40%, i.e. HK\$20,632,178
Management Fee	1.20%, i.e. HK\$61,896,533	0.80%, i.e. HK\$41,264,355
Other fees and charges (being the Manager's best estimate based on historical figures of the Trust)	0.02% i.e. HK\$1,031,609	0.02% i.e. HK\$1,031,609
Total fees (inclusive of performance fees)	HK\$88,718,364	HK\$68,879,753
Percentage of fees (inclusive of performance fees)	<u>1.72%</u>	<u>1.34%</u>
Total Fees (exclusive of performance fees)	HK\$88,718,364	HK\$62,928,142
Percentage of fees (exclusive of performance fees)	<u>1.72%</u>	<u>1.22%</u>

@ For the purposes of the Manager's calculations, the total number of HKD Class units was estimated to be 379,221,151.775736, being the average daily number of HKD Class units from 1 January 2020 to 17 November 2020.

In light of the above, the ongoing charges figures of HKD Class, USD Class 1 and USD Class 2 Units of the Trust are expected to be reduced as a result of the Performance Fee Change and reduction of trustee fees and management fees as described below:

<u>Class</u>	<u>Current ongoing charges figures[#]</u>	<u>Revised ongoing charges[^]</u>
HKD Class	1.72% per annum (exclusive of performance fees) 1.72% per annum (inclusive of performance fees)	Estimated to be 1.22% per annum (exclusive of performance fees) Estimated to be 1.34% per annum (inclusive of performance fees)
USD Class 1	Estimated to be 1.86% per annum (exclusive of performance fees) Estimated to be 1.86% per annum (inclusive of performance fees)	Estimated to be 1.22% per annum (exclusive of performance fees) ^{##} Estimated to be 1.34% per annum (inclusive of performance fees) ^{##}
USD Class 2	Estimated to be 1.31% per annum (exclusive of performance fees) Estimated to be 1.31% per annum (inclusive of performance fees)	Estimated to be 1.17% per annum (exclusive of performance fees) ^{##} Estimated to be 1.29% per annum (inclusive of performance fees) ^{##}

[#] Please refer to the product key facts statement of the Trust dated 29 April 2020 for more details regarding the current ongoing charges figures.

[^] The ongoing charges figures represent the estimated ongoing expenses chargeable to each class of units over a year as a percentage of the estimated average net asset value of the relevant class of units over the same period. It includes all aspects of operating the Trust, including the fees to be paid for investment management and administration. Performance fees to be paid as at year end, if any, may vary subject to the market conditions. As the management fee of HKD Class and USD Class 1 for the Trust will be reduced from 1.2% per annum to 0.8% per annum, the trustee fee of HKD Class and USD Class 1 will be reduced from 0.5% per annum to 0.4% per annum and the percentage level of the High Water Mark of HKD Class, USD Class 1 and USD Class 2 will be lowered from 108% to 102.8% with effect from 1 January 2021, this is a best estimate of the Trust's ongoing charges figure over a year, based on the estimated ongoing expenses of the Trust over a year taking into account the management fee and performance fee change. The estimated ongoing charges inclusive of performance fee of each class of units is based on a presumed return of the relevant class of 4% per annum, which is the assumed rate of return derived from the Manager's best estimate with reference to the historical performance of the Trust. In light of the above, the actual figure may be different from the estimate and may vary from year to year. The Manager will monitor the ongoing charges figures and, if necessary, update the figures in the product key facts statement of the Trust in accordance with the relevant SFC guidance.

^{##} As the class of Units is newly set up, this is only an estimate based on the sum of the estimated ongoing expenses chargeable to this class of Units of the Trust expressed as a percentage of the estimated average Net Asset Value of this class of Units of the Trust. In addition, as there are currently no investors of USD Class 1 and USD Class 2 Units, the estimated ongoing charges inclusive of performance fee is only a best estimate by the Manager based on the same presumptions and basis of calculations applicable to the Manager's estimation of ongoing charges of HKD Class units. It includes all aspects of administering USD Class 1 and USD Class 2 Units, including management fees, trustee fees and other fees and charges (such as fees payable to the administrator, registrar and auditors). The other fees and charges are assumed to amount to 0.02% of the net asset value of USD Class 1 and USD Class 2 units, which is in line with the percentage level of other fees and charges applicable to HKD Class units based on historical figures. The actual figures may vary from year to year.

E. Impact of the Performance Fee Change on the Trust

As a result of the Performance Fee Change, the frequency of triggering the payment of performance fee may increase and, once such payment is triggered, (i) the amount of performance fees payable to the Manager in respect of a single performance period or alternatively, (ii) the aggregate amount of performance fee payable to the Manager across multiple performance periods over the period of a Unitholder's investment, may increase, as demonstrated in the illustrative examples as follows:

Assuming the Period-End Average Number of Units for each year is 1,000:

A) Hypothetical example 1: assuming a Period-Start NAV per Unit of HK\$100 in Year y

Current High Water Mark

	Year y	Year (y+1)	Year (y+2)	Year (y+3)
(1) Period-Start NAV per Unit	HK\$100	HK\$109.8	HK\$105	HK\$108
(2) Period-End NAV per Unit	HK\$110	HK\$105	HK\$108	HK\$120
(3) High Water Mark	HK\$108	HK\$118.58	HK\$118.58	HK\$118.58
(4) Is Period-End NAV per Unit > High Water Mark?	Yes	No	No	Yes
(5) Period-End Excess NAV per Unit	HK\$2	Nil	Nil	HK\$1.42
(6) Amount of performance fee to be charged per Unit (= 10% x Period-End Excess NAV per Unit)	HK\$0.2	Nil	Nil	HK\$0.142
(7) Total amount of performance fee to be charged (= 10% x Period-End Excess NAV per Unit x 1,000)	HK\$200	Nil	Nil	HK\$142
Total performance fees payable from Year y to Year (y+3) = HK\$342				

Proposed High Water Mark

	Year y	Year (y+1)	Year (y+2)	Year (y+3)
(1) Period-Start NAV per Unit	HK\$100	HK\$109.28	HK\$105	HK\$108
(2) Period-End NAV per Unit	HK\$110	HK\$105	HK\$108	HK\$120
(3) High Water Mark	HK\$102.8	HK\$112.34	HK\$112.34	HK\$112.34
(4) Is Period-End NAV per Unit > High Water Mark?	Yes	No	No	Yes
(5) Period-End Excess NAV per Unit	HK\$7.2	Nil	Nil	HK\$7.66
(6) Amount of performance fee to be charged per Unit (= 10% x Period-End Excess NAV per Unit)	HK\$0.72	Nil	Nil	HK\$0.766
(7) Total amount of performance fee to be charged (= 10% x Period-End Excess NAV per Unit x 1,000)	HK\$720	Nil	Nil	HK\$766
Total performance fees payable from Year y to Year (y+3) = HK\$1,486				

B) Hypothetical example 2

Current High Water Mark

	Year y	Year (y+1)	Year (y+2)	Year (y+3)
(1) Period-Start NAV per Unit ¹	HK\$13.078537	HK\$13.601679	HK\$14.143654	HK\$14.709400
(2) Period-End NAV per Unit ²	HK\$13.601679	HK\$14.145746	HK\$14.709400	HK\$15.297776
(3) High Water Mark ³	HK\$14.124820	HK\$14.124820	HK\$15.275146	HK\$15.275146
(4) Is Period-End NAV per Unit > High Water Mark? ⁴	No	Yes	No	Yes
(5) Period-End Excess NAV per Unit ⁵	Nil	HK\$0.020926	Nil	HK\$0.022630
(6) Amount of performance fee to be charged per Unit (= 10% x Period-End Excess NAV per Unit)	Nil	HK\$0.002093	Nil	HK\$0.002263

(7) Total amount of performance fee to be charged (= 10% x Period-End Excess NAV per Unit x 1,000)	Nil	HK\$2.092620	Nil	HK\$2.262985
Total performance fees payable from Year y to Year (y+3) = <u>HK\$4.355605</u>				

Proposed High Water Mark

	Year y	Year (y+1)	Year (y+2)	Year (y+3)
(1) Period-Start NAV per Unit ¹	HK\$13.078537	HK\$13.585985	HK\$14.113121	HK\$14.660710
(2) Period-End NAV per Unit ²	HK\$13.601679	HK\$14.129424	HK\$14.677646	HK\$15.247138
(3) High Water Mark ³	HK\$13.444736	HK\$13.966392	HK\$14.508288	HK\$15.071210
(4) Is Period-End NAV per Unit > High Water Mark? ⁴	Yes	Yes	Yes	Yes
(5) Period-End Excess NAV per Unit ⁵	HK\$0.156943	HK\$0.163032	HK\$0.169357	HK\$0.175929
(6) Amount of performance fee to be charged per Unit (= 10% x Period-End Excess NAV per Unit)	HK\$0.015694	HK\$0.016303	HK\$0.016936	HK\$0.017593
(7) Total amount of performance fee to be charged (= 10% x Period-End Excess NAV per Unit x 1,000)	HK\$15.6943	HK\$16.303182	HK\$16.935745	HK\$17.592852
Total performance fees payable from Year y to Year (y+3) = <u>HK\$66.526079</u>				

Notes:

1. Assuming a Period-Start NAV per Unit of HK\$13.078537 in Year y, which is the estimated Period-End NAV per Unit of the Performance Period ending 31 December 2020 net of the performance fee paid in respect of the same Performance Period, i.e. the expected highest Period-Start NAV per Unit since the launch of the Trust as of the Performance Period commencing 1 January 2021. The Period-Start NAV per Unit in each subsequent year (namely, Years (y+1), (y+2), (y+3)) is the Period-End NAV per Unit of the immediately preceding year net of the performance fee paid in respect of that preceding year, if any, i.e. = item (2) - item (6) of the immediately preceding year.
2. Assuming a return of 4% per annum, based on the historical performance of the Trust, i.e. = item (1) of each year * 104%.
3. The High Water Mark applicable to Year y is the estimated Net Asset Value per Unit as of 31 December 2020 after payment of estimated performance fees * the applicable percentage level of High Water Mark (108% or 102.8%, as the case may be). Please also refer to Note 4 below regarding the High Water Mark of subsequent years.
4. Where the Period-End NAV per Unit of a year does not exceed the applicable High Water Mark, the High Water Mark for the subsequent year is unchanged. Where the Period-End NAV per Unit of a year exceeds the applicable High Water Mark, performance fees will be payable and the High Water Mark applicable to the subsequent year will be reset. The new High Water Mark will be item (1) of the subsequent year * the applicable percentage level of High Water Mark (108% or 102.8%, as the case may be).
5. Only applicable where Period-End NAV per Unit exceeds the applicable High Water Mark. If applicable, = item (2) - item (3) of that year.

In addition, the following existing risk associated with the Trust may also be enhanced as a result of increased reliance of the Manager on payment of performance fees:

Performance fee risk

Performance fees may encourage the Manager to make riskier investment decisions than in the absence of performance-based incentive systems. The increase in Net Asset Value which is used as a basis for the calculation of performance fees may comprise of both realised gains and unrealised gains as at the end of the calculation period. As a result, performance fees may be paid on unrealised gains which may subsequently never be realised by the Trust.

There is no adjustment of equalisation credit or equalisation losses on an individual Unitholder basis. A Unitholder redeeming Units may still incur performance fee in respect of the Units, even though a loss in investment capital has been suffered by the redeeming Unitholder.

Furthermore, any decrease in the percentage level of the High Water Mark may increase the frequency of triggering the payment of performance fee and, once such payment is triggered, increase the amount of performance fees payable to the Manager. This may therefore increase the Manager's dependence on remuneration based on the performance of the Trust and further incentivise the Manager to take additional risks when making investment decisions in order to maximise the appreciation of the Net Asset Value of the Trust.

Notwithstanding the above and for the avoidance of doubt, the Manager does not currently intend to alter its investment selection process or make riskier investment decisions to the detriment of investors of the Trust, as (i) the Manager will continue to manage the Trust within the ambit of the investment objective, strategy and restrictions applicable to the Trust, which remains unchanged notwithstanding the Performance Fee Change, and (ii) the Manager considers that the possibility of the Manager taking excessive risk as a result of the Performance Fee Change is limited, as investing in holdings with a high risk profile may not necessarily result in an increase in the Net Asset Value of the Trust in circumstances of market instability or in the long term.

Other than as outlined above, the Manager does not expect that the Performance Fee Change will affect the other features or risks applicable to the Trust.

For the avoidance of doubt, investors may continue to obtain information regarding the Net Asset Value per Unit of the Trust updated on a daily basis as well as historical Net Asset Value per Unit of the Trust since the launch of the relevant class from the website of the Manager <http://www.clamc.com.hk> (this website has not been reviewed by the SFC). The Net Asset Value per Unit of the Trust is HK\$13.0543 as of 17 November 2020.

There is no change in the operation of the Trust or the manner in which the Trust is being managed, and there is no material effect on the change in percentage level of the High Water Mark on existing investors as a result of the Performance Fee Change.

Other than as outlined above, there will be no other changes in the fee level/cost in managing the Trust as a result of the Performance Fee Change.

The costs (including legal fees and translation fees) incurred in connection with the changes described in this announcement and notice will be approximately HK\$320,500 and borne by the Trust. These costs are not expected to be material to the Trust, and hence are not expected to pose any material impact to the Net Asset Value of the Trust nor any significant adverse impact to Unitholders.

The Manager determines that there are no matters or impact arising from the Performance Fee Change that may materially prejudice the existing investors' rights or interests. The Trustee does not have any objection to the changes described in this announcement and notice.

F. Extraordinary General Meeting

The amendment to the Trust Deed described at section (A)(ii) above is subject to approval by Unitholders of the Resolution at the EGM to be held on 18 December 2020.

The quorum for passing the Resolution shall be Unitholders present in person or by proxy registered as holding not less than one-quarter of all the Units for the time being in issue. If a quorum is not present within half an hour from the time appointed for the EGM, the EGM shall be adjourned to a day and time not less than fifteen days thereafter. In case of adjournment of the EGM, the expected effective date of the Performance Fee Change will be postponed to 4 January 2021. The Manager will issue a notice informing the Unitholders of the details of the adjourned meeting (if any) in due course together with details of the revised timeline of implementation of the Performance Fee Change as a result of the adjournment.

Unitholders may attend and vote in person or by proxy:

- For individual Unitholders, if you wish to vote in person, you may attend the EGM.
- For Unitholders which are corporations may by resolution of its directors or other governing body authorise such person as it thinks fit to act as its representative. The person so authorised should produce a copy of such resolution certified by a director of the corporation to be a true copy when attending and voting at the EGM.

- If you wish to vote but do not wish to attend the EGM, you may fill out the proxy form attached to the Notice of Extraordinary General Meeting and return the duly completed proxy form to the offices of the Manager (set out below) not less than 48 hours before the time appointed for the EGM, namely, on or before 10:00 a.m. on 16 December 2020.

Every Unitholder shall have one vote for every Unit of which he/it is the Unitholder.

The Manager will publish an announcement setting out the results of the EGM shortly after the EGM is held.

G. General

The Explanatory Memorandum and the KFS will be updated to reflect the above changes provided that, in relation to the Performance Fee Change, any update to the Explanatory Memorandum and the KFS in this respect will also be subject to the passing of the Resolution. Other changes will also be made to the Explanatory Memorandum and the KFS, including:

1. disclosure regarding new classes of Units to be established for subscription by retail investors in mainland China under the northbound Mainland-Hong Kong Mutual Recognition of Funds regime; and
2. other minor changes, including drafting changes.

The Explanatory Memorandum and KFS will be published on the Manager's website at <http://www.clamc.com.hk> (this website has not been reviewed by the SFC) after the Effective Date on 4 January 2021, being the first business day following the Effective Date. Copies of the Explanatory Memorandum and KFS will be available for inspection free of charge at any time during normal business hours on any day (excluding Saturdays, Sundays and public holidays) at the offices of the Manager (set out below).

Subject to the passing of the Resolution, copies of the Trust Deed as amended, will also be available for inspection from 4 January 2021 onwards at the office of the Trustee at 17th Floor, CLI Building, No.313 Hennessy Road, Wan Chai, Hong Kong, during normal business hours free of charge and copies may be purchased at a reasonable charge.

If you have any questions or require further information, please contact the Manager at Unit 301 Cheung Kong Centre, 2 Queen's Road Central, Hong Kong or by telephone at 3944 5588.

Yours faithfully,
China Life Franklin Asset Management Co., Limited

China Life Franklin Diversified Income Fund
A Hong Kong unit trust authorised under
Section 104 of the Securities and Futures Ordinance (Cap. 571) of the laws of Hong Kong
(the “Trust”)

NOTICE OF EXTRAORDINARY GENERAL MEETING

WHEREAS China Life Franklin Asset Management Co., Limited (the “Manager”) intends to change the performance fee payable in respect of HKD Class, USD Class 1 and USD Class 2 Units such that the percentage level of the High Water Mark will be lowered from 108% to 102.8% (or such other percentage as may from time to time be determined by the Manager with the approval of the Trustee and with not less than one months' notice to the relevant Unitholders of the relevant Class), and hereby proposes the extraordinary resolution (the “**Resolution**”) as set out below to be passed at an extraordinary general meeting of the Trust (the “**EGM**”) in order to proceed with the change. Subject to the passing of the Resolution, the Manager also intends to reduce the management fee and trustee fee of the Trust. Please refer to the Announcement and Notice for details regarding the reduction in management fee and trustee fee.

NOTICE IS HEREBY GIVEN that the EGM will be held at China Life Franklin Asset Management Co., Limited, Unit 301 Cheung Kong Centre, 2 Queen's Road Central, Hong Kong on 18 December 2020 at 10:00 a.m. for the purpose of considering and, if thought fit, passing the Resolution as an extraordinary resolution as follows:

EXTRAORDINARY RESOLUTION

THAT the trust deed of the Trust (the “**Trust Deed**”) be amended by deleting and replacing Clause 29.5 of the Trust Deed as follows:

- “29.5 A performance fee will be payable to the Manager if the Net Asset Value per Unit of the relevant Class (as defined below), calculated on the relevant Performance Fee Valuation Day, is greater than the Base Net Asset Value per Unit of that Class (as defined below).

The fee payable shall be calculated as follows:

$$\frac{(A - B) \times C \times D}{E}$$

where:

- A = the Net Asset Value per Unit of the relevant Class, calculated on the relevant Performance Fee Valuation Day, after deduction of all fees (excluding the performance fee payable in the Relevant Performance Period, if any) and distributions which has been declared or paid in respect of the Relevant Performance Period.
- B = the Base Net Asset Value per Unit of the relevant Class which shall be 102.8 per cent. (or such other percentage as may from time to time be determined by the Manager with the approval of the Trustee and with not less than one months' notice to the relevant Unitholders of the relevant Class) of the greater of HK\$10 and the Net Asset Value per Unit of the relevant Class as at the Performance Fee Valuation Day of the preceding Relevant Performance Period in relation to which a performance fee was last calculated and paid (after deduction of all fees (including the performance fee paid in the preceding Relevant Performance Period, if any) and all distributions which have been declared or paid in respect of such preceding Relevant Performance Period).
- C = the aggregate number of Units of the relevant Class in issue during the Relevant Performance Period, calculated by adding the total number of Units of that Class in issue as at the Valuation Point on each Valuation Day of the Relevant Performance Period.
- D = 10 per cent. per annum or, subject to the approval of the Unitholders of Units of the relevant Class by Extraordinary Resolution (which approval shall, for the avoidance

of doubt, only be required in connection with a proposal to increase such rate), such other percentage figure as the Manager may from time to time specify.

E = the number of Valuations Days in the Relevant Performance Period.”

The quorum for passing the Resolution shall be Unitholders present in person or by proxy registered as holding not less than one-quarter of all the Units for the time being in issue.

The Resolution must be passed by a majority consisting of 75% or more of the total number of votes cast for and against the extraordinary resolution.

Please refer to section F of the Announcement and Notice if you wish to attend and/or vote at the EGM.

Yours faithfully,
China Life Franklin Asset Management Co., Limited

China Life Franklin Diversified Income Fund

A Hong Kong unit trust authorised under

Section 104 of the Securities and Futures Ordinance (Cap. 571) of the laws of Hong Kong¹

FORM OF PROXY FOR USE AT THE EXTRAORDINARY GENERAL MEETING OF THE TRUST ON 18 DECEMBER 2020 (THE "EGM")

I/We² _____ (name)

of _____ (address)

being the registered holder(s) of the Units of China Life Franklin Diversified Income Fund, HEREBY
APPOINT

³ _____ of _____

or failing him, the Chairman of the EGM as my/our proxy to act for me/us and on my/our behalf at the EGM to be held at China Life Franklin Asset Management Co., Limited, Unit 301 Cheung Kong Centre, 2 Queen's Road Central, Hong Kong on 18 December 2020 at 10:00 a.m. to vote in respect of the Extraordinary Resolution as indicated below, and, if no such indication is given, as my/our proxy thinks fit.

	FOR ⁴	AGAINST ⁴
<p>Extraordinary Resolution to approve:</p> <p>The trust deed of the Trust (the "Trust Deed") be amended by deleting and replacing Clause 29.5 of the Trust Deed as follows:</p> <p>"29.5 A performance fee will be payable to the Manager if the Net Asset Value per Unit of the relevant Class (as defined below), calculated on the relevant Performance Fee Valuation Day, is greater than the Base Net Asset Value per Unit of that Class (as defined below).</p> <p>The fee payable shall be calculated as follows:</p> $\frac{(A - B) \times C \times D}{E}$ <p>where:</p> <p>A = the Net Asset Value per Unit of the relevant Class, calculated on the relevant Performance Fee Valuation Day, after deduction of all fees (excluding the performance fee payable in the Relevant Performance Period, if any) and distributions which has been declared or paid in respect of the Relevant Performance Period.</p> <p>B = the Base Net Asset Value per Unit of the relevant Class which shall be 102.8 per cent. (or such other percentage as may from time to time be determined by the Manager with the approval of the Trustee and with not less than one months' notice to the relevant Unitholders of the relevant Class) of the greater of HK\$10 and the Net Asset Value per Unit of the relevant Class as at the Performance Fee Valuation Day of the preceding Relevant Performance Period in relation to which a performance fee was last calculated and paid (after deduction of all fees (including the performance fee paid in the preceding Relevant Performance Period, if any) and all distributions</p>		

	which have been declared or paid in respect of such preceding Relevant Performance Period).		
C =	the aggregate number of Units of the relevant Class in issue during the Relevant Performance Period, calculated by adding the total number of Units of that Class in issue as at the Valuation Point on each Valuation Day of the Relevant Performance Period.		
D =	10 per cent. per annum or, subject to the approval of the Unitholders of Units of the relevant Class by Extraordinary Resolution (which approval shall, for the avoidance of doubt, only be required in connection with a proposal to increase such rate), such other percentage figure as the Manager may from time to time specify.		
E =	the number of Valuations Days in the Relevant Performance Period.		

Dated this ____ day of _____ 2020

Signature ⁵ _____

Notes:

1. SFC authorisation is not a recommendation or endorsement of a scheme nor does it guarantee the commercial merits of a scheme or its performance. It does not mean the scheme is suitable for all investors nor is it an endorsement of its suitability for any particular investor or class of investors.

2. Full name(s) and address(es) to be inserted in BLOCK CAPITALS.

3. Please insert the name and address of the proxy desired. **IF NO NAME IS INSERTED, THE CHAIRMAN OF THE EGM WILL ACT AS YOUR PROXY.** The proxy need not be a holder of Units of the Trust, but must attend the EGM in person to represent you.

4. **IMPORTANT: ALTHOUGH THE RESOLUTION IS DIVIDED INTO SUB-PARAGRAPHS FOR CLARIFICATORY PURPOSES, THE RESOLUTION IS A SINGLE EXTRAORDINARY RESOLUTION ONLY, I.E. THERE IS ONLY ONE RESOLUTION TO VOTE.**

IF YOU WISH TO VOTE FOR THE RESOLUTION, PLEASE PLACE A “✓” OR STATE THE RELEVANT NUMBER OF UNITS IN THE RELEVANT BOX MARKED “FOR”. IF YOU WISH TO VOTE AGAINST THE RESOLUTION, PLEASE PLACE A “✓” OR STATE THE RELEVANT NUMBER OF UNITS IN THE RELEVANT BOX MARKED “AGAINST”. IF A “✓” IS PUT UNDER THE COLUMN “FOR” OR “AGAINST” WITHOUT STATING THE RELEVANT NUMBER OF UNITS UNDER THE RELEVANT COLUMN, IT WILL BE DEEMED TO RELATE TO THE ENTIRE UNITHOLDING. PLEASE THEREFORE STATE THE RELEVANT NUMBER OF UNITS UNDER THE COLUMN “FOR” OR “AGAINST” IF YOU WISH TO CAST YOUR VOTE FOR ONLY PART OF THE UNITHOLDING.

Failure to complete the box will entitle your proxy to cast his vote at his discretion. Your proxy will also be entitled to vote at his discretion on any resolution properly put to the EGM other than those referred to in the notice convening the EGM.

Every holder shall have one vote for every Unit of which he/it is the holder, regardless of the price of the relevant Unit(s). A person entitled to more than one vote need not vote all votes to which the Units held entitle the holder or cast the votes to which the Units held entitle the holder to vote in the same way.

5. This form of proxy must be signed by you or your attorney duly authorised in writing or, in the case of a corporation, either under the common seal or under the hand of an officer or attorney so authorised to sign the same.

6. To be valid, this form of proxy together with the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy thereof, must be deposited at the offices of the Manager at Unit 301

Cheung Kong Centre, 2 Queen's Road Central, Hong Kong not less than 48 hours before the time appointed for the EGM, namely, on or before 10:00 a.m. on 16 December 2020.

7. Any alteration made to this form of proxy must be initialled by the person who signs it.