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Mutual Funds

A new way of Saving

A Concise Guide for Investors

Jama Punji is an Investor Education Initiative of Securities and Exchange Commission of Pakistan

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1. Why invest in mutual funds?

Investment requires fulltime attention to a myriad of factors that can affect the value of your hard earned money. Asset management companies (AMCs) are backed by dedicated professional fund managers and research teams responsible for monitoring the performance of a fund's portfolio and making recommendations for prudent investments decisions. You need not worry about the day to day management of your portfolio.

Mutual funds enable small and large investors to safely invest in professionally managed portfolios of equities, debt and money market instruments such as TFCs, other financial assets and Govt. Securities. Diversification offered by mutual funds cannot simply be achieved by a small investor with limited investment funds.

The income of mutual funds is exempt from tax subject to the condition that at least 90 percent of the income earned by a mutual fund from sources other than capital gains, after deducting allowable expenses is distributed to the unit holders. A mutual fund is a pass through entity, and Income distributed by the mutual fund is taxed at the unit holder level.

Accordingly, mutual funds can provide you with regular income and an opportunity for increasing your savings through reinvestment.

2. What is a mutual fund?

A mutual fund is a collective investment scheme that pools money from many investors. The money is managed by an asset management company (AMC) duly licensed by the Securities and Exchange Commission of Pakistan (SECP). The money is invested by the asset management company on behalf of the unit holders in a portfolio of securities or other financial assets for profits and income. Majority of the income earned by the mutual funds' portfolio is given back to the investors/ unit holders as illustrated below:

3. Structure of mutual funds

Mutual funds are established by a Trust Deed between the AMC and the trustee under the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 (the "Rules"). Under the regulations an independent trustee registered with the SECP has custody of all mutual fund assets. All Mutual Funds are obliged to appoint an independent trustee, which can be a scheduled bank having a minimum of 'AA-' rating and has been in business for at least five years or a subsidiary of scheduled bank having a minimum of AA- rating or an investment finance company having a minimum of AA- rating or a central depository company. The trustee is obligated to ensure that:

- The asset management company Invests the fund's assets in accordance with the approved investment policy and authorized investments of the mutual fund;
- All mutual fund property including cash is under its control and is registered in the name of, or to the order of the trustee; and
- Fund property is held in trust for the unit holders in accordance with the rules, regulations and provisions of the constitutive documents.

4. Characteristics of mutual funds

Some of the unique characteristics of mutual funds include the following:

- Unlike other securities, there is always a willing buyer for your units; an open-end mutual fund must redeem shares at the net asset value, meaning investors can sell their shares back to the fund.
- The investment portfolios of mutual funds are managed by separate entities known as "asset management companies (AMCs)" that are licensed by the Securities and Exchange Commission of Pakistan.
- Investors purchase mutual fund units/shares from the fund itself or from

banking/ financial companies authorized to act as distributors/ sales agents instead of from other investors on the secondary market such as the Pakistan Stock Exchange.

- Under the regulations an independent trustee registered with the SECP has custody of all mutual fund assets.
- Each unit/share represents an investor's proportionate ownership of the fund's undivided portfolio; each unit holder shares equally with other investors in distributions.
- Open –end mutual funds generally create and sell new units on a continuous basis to accommodate new investors.
- The value of a mutual fund's portfolio fluctuates as money is invested and redeemed and as the value of the securities held by the portfolio rises and falls.

5. Advantages and disadvantages

Here are the advantages of investing in mutual funds:

Professional management

Asset management company (AMC) evaluates investment opportunities by researching, selecting and monitoring the performance of the securities purchased by the fund. This is not an easy task for an individual or a corporate entity without specialized knowledge.

Diversification

By spreading your investment across a number of securities and investment sectors, a mutual fund can help lower your risk if a company or sector fails. Diversification can be neatly summed up as "Don't put all your eggs in one basket." It would be difficult for an average investor to buy varied securities to achieve the same level of diversification, as is available through investment in a mutual fund.

Affordability

Mutual funds accommodate investors who don't have a lot of money to invest by setting relatively low Rupee amounts for initial purchases, and subsequent monthly purchases. For example, you can add funds at set amounts of say PKR 1000- 5000 per month or other interval.

Liquidity

Mutual fund unit holders can readily convert their units into cash on any working day. They will promptly receive the current value of their investment within six working days. Investors do not have to find a buyer, the fund buys back (redeems) the units at the current NAV.

Economies of scale

Mutual funds buy and sell large amounts of securities at a time. Your costs for transactions and management fees are shared with fellow unit holders.

Transparency

The performance of a mutual fund is carefully reviewed by various publications and rating agencies, making it easy for investors to compare performance of a fund. As a unit holder, you are provided with regular updates, for example, daily NAVs, as well as information on the fund's holdings and the fund manager's strategy.

Tax benefits

Investment in mutual fund schemes entitles the investor to avail tax credit which enhances the overall return on their savings.

Disadvantages

However, mutual funds also have features that some investors might view as disadvantages, such as:

Costs despite negative returns

Investors continue to pay sales charges and annual management fees whether or not a fund is performing well.

Lack of control

Investors typically cannot ascertain the exact make-up of a fund’s portfolio at any given time, nor can they directly influence which securities the fund manager buys and sells or the timing of those trades.

Price uncertainty

Real-time pricing information for a listed stock is easily available by checking financial websites or by calling your broker. However, in case of an open-end fund, the price at which you purchase or redeem shares will typically depend on the fund’s NAV, which the fund might not calculate until many hours after you’ve placed your order. In general, most mutual funds must calculate their NAV at the end of the day.

6. Regulatory framework

Mutual funds are regulated by the Securities & Exchange Commission of Pakistan (SECP) with the objective of protection of the investor and development of the capital market. There is a transparent and rigorous process for issuing licenses to fund management companies. The SECP also carries out continuous monitoring of mutual funds through reports that the mutual funds are mandated to file with the SECP on a regular basis. In addition, SECP conducts on-site inspections of the AMCs.

However, approval of the SECP does not in any way make certain the profitability or safety of a mutual fund. An investor must independently and comprehensively assess the merits and risks of investing in a mutual fund, keeping in view their investment objectives and needs.

The governing regulatory framework for the mutual funds industry can be accessed from our website (i.e. www.secp.gov.pk and) and includes the following:

I. Non-Banking Finance Companies (Establishment &Regulation) Rules, 2003 (the Rules);

II. Non-Banking Finance Companies & Notified Entities Regulations, 2008 (the Regulations); and

III. Circulars and Directives issued by the SECP under the provisions of the Companies Ordinance, 1984.

7. Valuation of mutual fund investment

The price of your investment is determined by the fund's net asset value (NAV). The NAV is equal to the market value of assets held in the portfolio of a fund, minus liabilities, divided by the total number of units outstanding.

NAV = current market value of all the assets – liabilities/ Total number of units outstanding

The sale price of a unit is determined by adding a sales load to the NAV. In case there is no sales load, the NAV will be the sale price as well as the redemption price. The sale and redemption price is declared on a daily basis by the funds, and can be viewed on their respective websites as well as on MUFAP website.

8. How mutual funds can increase your wealth?

A mutual fund can increase your wealth through:

Dividend Payments: A mutual fund earns income in the form of dividends and interest on the securities in its portfolio. Dividend is paid in the form of cash on monthly/quarterly/annual basis depending on the category of the fund.

Dividends can be re-invested net of taxes by informing the AMC. The AMC will issue new units for the price of the re-invested dividend amount.

Capital Gains Distributions: The price of the securities in a mutual fund's portfolio may increase. When a fund sells a security that has increased in price, the fund has a capital gain. At the end of the financial year or during the year, funds may distribute these capital gains (minus any capital losses) to you.

Increased NAV: When the price of a fund increases due to appreciation in the overall portfolio of the fund, it results in capital gains for investors who can redeem their units at a higher price.

Tax benefit: Individual investors in mutual funds, other than an entity, are entitled to a tax credit on the purchase of new units under Section 62 of the Income Tax Ordinance 2001. Tax credit is calculated by multiplying the average tax rate of the unit holder to an amount that is the lower of:

I. Amount invested in purchase of new units; or
II. Twenty percent of the taxable income of the unit holder; or
III. One million five hundred thousand (Rs. 1,500,000).

However, if the units on which tax credit is allowed are redeemed within twenty four months from the date of investment, the amount of the tax credit will have to be repaid by the investor.

9. Types of mutual funds

It may be noted that in Pakistan the vast majority of mutual funds are open-end mutual funds. There are only a handful of closed-end funds operating in Pakistan.

Open-end

An open end fund does not have a fixed pool of money. The fund continually creates new units or redeems issued units on demand, and there is no limit on the fund size. The price of the units does not rise or fall in response to demand, but is driven by the value of the fund's underlying assets. Investors can conveniently buy and sell units at net asset value (NAV) through the asset management company (AMC) which announces offer and redemption prices daily.

Closed-end

These funds have a fixed number of units/shares like a public company and are floated through an Initial Public Offering (IPO). Once issued, they can be bought and sold at market rates in the secondary market i.e. the Pakistan Stock Exchange (PSX). The market rate is announced daily by the PSX. Price may rise or fall due to various factors including supply and demand of the units which generally trade at a discount to their net asset value. The units in a closed-end fund are not redeemable, but are readily transferable and traded on the stock exchange or over-the-counter.

10. Catagories of funds

Equity fund

In Pakistan the SECP in consultation with the Mutual Fund Association of Pakistan has devised criteria for categorization of open –end mutual funds together with investment parameters. Generally, the higher the potential return, the higher the risk of loss. In Pakistan the SECP has approved the following categories for mutual funds:

Equity fund

An equity fund invests in equities more commonly known as stocks/shares that are subject to the risk of volatility associated with the equity market. Although this fund is the riskiest, it can provide maximum long-term growth through capital appreciation. An equity fund, as per the categorization, must invest at least 70% of its net assets in listed equity securities. The remaining net assets of an equity scheme may be invested in cash or near cash instruments.

Income fund

These funds focus on providing investors with a steady stream of fixed income. They invest in short term and long term debt instruments like Term Finance Certificates (TFCs) which are issued by corporations and government securities such as Treasury Bills and Pakistan Investment Bonds (PIBs). An income fund is considered to be less risky than an equity fund. Accordingly, opportunity for capital appreciation is limited. Income funds are required to maintain at least 25% of net assets in cash and/or near cash instruments to meet liquidity requirements.

Money market fund

These funds invest in short-term fixed income securities for example, government bonds, certificates of deposits and commercial paper. The aim of a money market fund is to maintain high liquidity by investing in low risk short term instruments, and is generally a safer investment. Returns generated by a money market fund are likely to fluctuate much less versus other types of mutual funds. Money market funds are ideal for new investors as they are the least complicated to follow and understand.

Balanced fund

A balanced fund provides growth in investment as well as regular income by investing in equities and fixed income securities. The regulatory framework dictates that balanced funds invest 30% to 70% of their net assets in listed equity securities. The remaining balance may be invested in other authorized investments. Balanced funds invest in listed equity securities, government securities, cash in bank accounts, money market placements, deposits, certificate of deposits (CODs), certificate of Musharikah (COM), Term Deposit Receipts (TDRs), repurchase agreement (REPO), Term Finance Certificates (TFCs) and Sukuk. However, the rating of any debt security in the portfolio cannot be lower than A- (A minus). Balanced funds may be exposed to the risk of fluctuations in equity markets.

Fund of Funds

Fund of Funds invest in other mutual funds. Every fund of funds must categorize itself by investment objective, for example equity fund of funds, income fund of funds etc. These funds operate a diverse portfolio of equity, balanced, fixed income and money market funds.

Shariah compliant (Islamic) funds

Islamic funds invest in Shariah Compliant securities i.e. shares, Sukuk (Islamic bonds), Ijara Sukuks (guaranteed by the State Bank of Pakistan) etc. as may be approved by the Shariah Advisor of such funds. These funds can be offered under the same categories as those for conventional funds.

Asset Allocation Fund

This category of fund can invest its net assets in several types of securities and investment styles as specified in its offering document. Asset allocation funds are generally considered high risk funds due to their potential to be fully invested in equities at any point in time.

Capital protected fund

Under a capital protected fund the original amount of the investment is protected. This fund places a major portion of the investment amount in a bank in the form of a term deposit, while investing the remaining net assets in accordance with the authorized investments stated in the offering document. Capital protected funds, unlike other funds, have a mutually agreed upon fixed maturity period.

Index Tracker fund

Index funds invest in securities to mirror a market index, such as the PSX 100. An index fund buys and sells securities in a manner that mirrors the composition of the selected index. The fund's performance tracks the underlying index's performance. Investment of at least 85% of net assets is required in the securities that constitute the selected index or its subset. The balances of the net assets are kept in cash or near cash instruments such as bank deposits (excluding Term Deposit Receipts (TDRs) and Treasury Bills not exceeding 90 days maturity.

Aggressive fixed income scheme

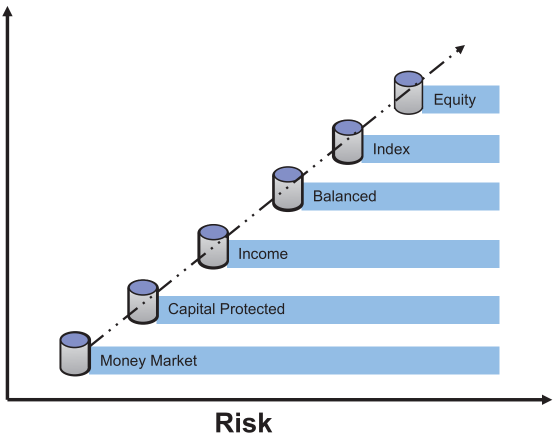
The aim of aggressive income fund is to generate a high return by investing in fixed income securities while also taking exposure in medium to lower quality of assets. These Funds usually invest in a portfolio of diverse securities including government securities, fixed income debt securities, deposits with bank(s), certificates of investments and commercial paper. At least 10% of the net assets are kept in cash or near cash instruments such as bank deposits (excluding TDRs) and Treasury Bills not exceeding 90 days maturity.

Commodity fund

Commodity funds enable small investors to take advantage of gains in commodity and commodity futures contracts such as gold through pooled investments. During the year, at least 70% of the net assets must be invested in commodity or commodity futures contracts based on average quarterly investment calculated on a daily basis.

11. Risk of investing in mutual funds

All investments in mutual funds are subject to market risks, and you may lose some or all of your money if the securities held by the fund move up and down in value. Past performance is not necessarily indicative of future results. The NAV based prices of units and any dividend/returns thereon can fluctuate as market conditions change. Funds with higher rates of return may take risks that are beyond your comfort level and may be inconsistent with your financial goals. All funds carry some level of risk as illustrated in the figure below.



Depending on the investment objective and category, a mutual fund can be subject to any or all of the following risks which could affect a fund's performance.

Market risk

Overall "market risk" is the greatest potential danger for investors in stocks funds. Stock prices can fluctuate for a broad range of reasons such as the overall strength of the economy or demand for particular products or services. This risk also known as systemic risk is caused by the economic, geographical, political and social factors of the specific market where the stock is listed.

Credit risk

The risk that the issuer of securities, for example TFCs, held by the mutual fund fails to meet its debt obligations. Similarly, there is a probability that an investment will go down in value, if the issuer of the security is downgraded by a reputable credit rating service.

Interest rate risk

The value of an investment will decline due to a change in the absolute level of interest rates. Normally, rise in interest rates during the investment period may result in reduced prices of the held securities. Funds that invest in longer-term bonds tend to have higher interest rate risk.

Liquidity risk

This arises from lack of marketability of an investment that cannot be quickly sold to convert to cash without incurring a loss. Thinly traded securities carry the danger of not being easily saleable at or near their real values. Liquidity risk is a characteristic of the fixed income market.

Please note that to reduce risk of loss it is always advisable to consult with your investment advisor /broker. While risk cannot be eliminated, the experience and expertise of mutual fund managers in selecting fundamentally sound securities and timing their purchases and sales may result in a diversified portfolio that minimizes risk while maximizing returns.

12. Selecting an appropriate category of mutual fund

What to consider before investing in a mutual fund?

Mutual funds differ in terms of investment objectives, strategies, risks and costs. When choosing a mutual fund the following should be considered:

- Investment objective
- Risk profile of fund
- Your own risk profile
- Time horizon
- Fund manager report of funds
- Offering documents of funds
- Fees and expenses
- Tax consequences
- Past performance of the AMC/fund

Before selecting an appropriate category of mutual fund(s) for your savings, you must know your investment objectives. Your financial goals are determined by your level of income and expenses, financial independence, age, lifestyle, family commitments, among many other factors. Here are some questions that you should ask yourself and likely answers that will help guide you towards selecting an appropriate mutual fund.

1. What are my investment objectives?

Likely answers: I need regular income; need to buy a home, finance a wedding; educate my children; or a combination of all these needs.

2. How much risk can I tolerate?

Likely answers: I cannot afford to take any risk; or am willing to accept the fact that to earn long term gain there may be short term losses.

3. What are my cash flow requirements?

Likely answers: I need a regular cash flow; or I want to grow my assets for the future, and do not need current cash flow; or I need a lump sum amount to meet a specific need in the future.

4. What is my time horizon?

Likely answers: I have a short term time horizon of less than one year; or medium term from one to five years; or long term from five to ten years.

By answering these questions you will have a clear idea about your expectations from your investment. This will help you determine an appropriate mutual fund investment strategy. Here are a few examples of possible investment choices based on your applicable time horizon:

- Long term horizon: If you are investing for the long term say five to ten years and want your money to grow, you should consider putting at least a portion of your money in equity mutual funds. A longer time horizon allows you to recover from a market downturn.
- Medium term horizon: Leaving your money invested for one to five years may not allow you to recover from market downturns. You should exercise caution and consider investing in balanced and income funds.
- Short term horizon: If you are investing for a year or less, there is very little time to recover from losses. You should only invest in mutual funds that have no restrictions on withdrawals and focus on very low risk investments such as money market funds.

To help you plan your investment portfolio, basic characteristics of mutual funds in terms of fund category, investment time horizon, volatility/risk, and allowable investments are presented below:

Fund Category	Investment Time Horizon	Volatility /Risk	Allowable Investments			
			Banks	T-Bills	TFCs /Sukuks	Equities
Money market	Short or Long	Very low	Yes	Yes	No	No
Income fund	Medium	Moderate	Yes	Yes	Yes	No
Balanced Fund	Medium-Long	Moderate to High	Yes	Yes	Yes	Yes
Equity	Long	Very High	Yes	Yes	No	Yes

13. How to invest in your selected fund category?

First verify license of an asset management company (AMC) using SECP SMS verification services as follows: **LV<space>incorporation ID to 8181 through your mobile phone**.

You can also visit Jamapunji web portal at www.Jamapunji.pk to verify license of AMC. After confirming their license, you should contact the AMC to assist you with your fund selection. It is important that you meet with the AMC representative in person and clearly state your investment objectives, concerns and time horizon.

Here are some questions that you should ask with respect to the particular mutual fund being offered to you:

- How has this fund performed over the long run?
- What is the fund's ranking on the MUFAP comparison for similar funds?
- What specific risks are associated with this fund?
- What type of securities does the fund hold?
- How often does the portfolio change?
- Does this mutual fund invest in any type of securities that could cause the value to go up or down rapidly in a short period of time?
- How much will the fund charge me when I buy units?
- What ongoing fees are charged?
- How much will the fund charge me when I sell my units?

You should only invest if you are satisfied with the answers provided. Before handing over your money, you should also study the offering documents, fund manager's report and review the funds' performance by visiting the MUFAP

14. How to buy and redeem units in mutual funds?

Buying by Individuals

Obtain application form by contacting the AMCs or their designated distributors or by visiting their website. You will need to provide the following at the time of opening an account:

- Copy of CNIC
- Application / Account Opening Form /Purchase of Units Form (See Appendix –A
- Zakat Affidavit (Optional)
- KYC Form (See Appendix-B)
- FATCA Form (See Appendix- C)
- Cheque/pay order/demand draft payable to the respective trustee

Carefully complete all forms, and read all documents before you sign them.

Buying by entities

When investing in mutual funds, corporate, provident, and pension fund investors are required to provide the following:

- Memorandum and Article of Association/ Trust deed
- Board / Trustee Resolution approving the investment

- Application/Account Opening Form
- Purchase of Units Form
- Power of Attorney and/or relevant resolution of board of directors/ trustee delegating authority to any of its officer to invest
- NTN of the institution with tax status
- CNIC of the officer to whom the authority has been delegated

Redemption procedure

Units may be redeemed by lodging a request, on the prescribed form redemption form (see Appendix –D) with an authorized branch of a distribution company or asset management company. Some asset management companies' websites allow you to make online redemption requests. Redemption payments are made to the investors within a maximum period of 6 working days.

15. Fees and expenses of mutual funds

Running a mutual fund involves costs such as transaction costs, investment advisory fees, and marketing and distribution expenses. It is important to understand that these charges will lower your return. Mutual funds transfer these costs to investor by classifying them as follows:

Fees and charges paid directly by the investor

Where the AMC offering document permits the charging of a sales load (front load on initial investment or back-end load at time of redemption) the cumulative sales load cannot exceed 3% of the net asset value per unit pursuant to SECP directive. Further, no sales load is to be charged if the investor approaches directly or where transactions are done online through a website.

Fees and charges paid directly by the investor represent one-time fees for investment/disinvestment in an open end fund. Details of these fees are provided in the offering documents of the mutual fund and may include:

- Front –end load: This includes sales and processing charges payable by an investor upon purchase of units and is expressed as a percentage of the NAV. This one-time charge is added to the Net Asset Value for determining the Offer Price. For example, if an investor invests Rs. 1,000 in a mutual fund with a 3% front-end load, Rs.30 (3%) will be paid for the sales charge, and Rs.970 (97%) will be invested in the fund. The front-end Load, charges are normally used by the AMC to pay commissions to sales agents for finding investors for the fund. Such agents can be banks, securities/ distribution companies or individuals.
- Back-end load: This is paid by an investor when the units are bought back by the fund. Back-end load is generally charged by funds in place of a

front end load, and is also referred to as deferred sales charge. This typically goes to the agent, AMC or third party distributor who sells the fund's units.

- Contingent load: This is charged by capital protected mutual funds on early redemption of the investment before expiry of the fixed maturity period. However, the mutual funds progressively reduce the load if an investor holds the investment for a longer period of time.
- No-load fund (Zero-load): A no-load fund is a mutual fund in which units are sold without a commission or sales charge. Because there is no transaction cost to purchase a no-load fund, all of the money invested is working for the investor.

Fees and charges paid by the fund

Details of all fees and charges to be paid by the fund are included in the offering document of the fund. These include:

- Management fee: This is payable to the AMC for the management of the fund and is calculated as a fixed percentage of the average net assets managed. The AMC is entitled to be paid in arrears out of the fund property on a monthly basis. The payment amount may not exceed three percent (3.00%) of the average annual net assets of the fund during the first five years; and two percent (2.00%) of the average annual net assets of the fund thereafter, calculated on a daily basis during the year.
- Trustee fee: The trustee is the custodian of the fund's assets and also ensures that the fund manager's investment decisions are in accordance with the fund's defined investment policy. The trustee is entitled to a monthly remuneration based on an annual tariff of charges as per the tariff structure disclosed in the offering document. The annual tariff is applied to the average annual net assets of the fund calculated on a daily basis during the year.
- Other fees: All expenses incurred in connection with formation and registration of open-end mutual funds including but not limited to: execution and registration of constitutive documents; fees payable to SECP, auditor's fee, fees payable to rating agencies, legal and printing costs; brokerage and transaction costs, bank charges, borrowing and financing costs, hedging cost, taxes, duties and other costs levied on foreign jurisdictional foreign investments ; cost of registration of assets in the name of trustee and listing fees payable to the stock exchange.

16. Expense Ratio

This expresses the mutual fund's annual fund operating expenses as a percentage of the fund's average net assets. The expense ratio of a stock or equity fund is the total percentage of fund assets used for administrative, management, advertising and all other expenses. An expense ratio of 1% per annum means that each year 1% of the fund's total assets will be used to cover expenses. The expense ratio does not include sales loads or brokerage commissions. Expense ratios are important to consider when choosing a fund, as they can significantly affect returns.

17. Taxation of income from mutual funds

Tax is withheld on income from mutual funds from capital gains and dividends in accordance with the income tax ordinance. It is recommended that you consult with a tax advisor to guide you in tax matters.

18. Zakat Deduction

Except for the unit holders exempted from payment of Zakat in accordance with the provisions of the Zakat and Usher Ordinance 1980, units held by a Muslim resident Pakistani unit holder, who is also Sahib-i-Nisab (persons liable to Zakat) are subject to the deduction of Zakat @ 2.5% of the face value or NAV, whichever is less, as of the Zakat valuation/deduction date.

Unit holders can also pay Zakat on their holdings in a mutual fund themselves. All they have to do is provide the AMC with 'Non-Declaration of Zakat Form' one month prior to the beginning of the holy month of Ramadan. Please note that Zakat amount is deducted from the first pay-out (redemption or cash dividend) after the Zakat valuation date.

19. Frequently asked questions

19.1 Are my returns guaranteed?

Mutual funds do not provide a guaranteed return like bank fixed deposits, bonds and government securities. Mutual fund returns are directly related to the performance of the underlying assets. Investment in mutual funds is subject to various risks which include, market risk, credit risk, liquidity risk, Interest rate risk etc.

There is no protection against potential losses that occur due to market risk. There is no insurance or other protection mechanism in place. However, under a capital protected fund the original amount of the investment is protected.

7. Valuation of mutual fund investment

19.2 What is an asset management company (AMC)?

It is a Non-Banking Finance Company licensed by the SECP to carry out asset management services. An AMC is responsible for the management of, and for operating a mutual fund for the benefit of the unit holders

19.3 What is the role of the trustee?

All Mutual Funds are obliged to appoint an independent trustee, who must register with SECP. The trustee performs the functions of the custodian of the assets of the fund. All the moveable and immoveable assets of the funds are vested in the trustee for the benefit of the unit-holders, i.e., the beneficial ownership of the assets of the fund belongs to the unit-holders.

19.4 What is the difference between forward and backward pricing?

Backward pricing uses the last computed NAV for issuance and redemption of units in a mutual fund. With the forward pricing mechanism, fund prices based on the same day's NAVs are applicable to the unit transactions for the day. For example, if you submit a request for redemption of units on May 5, the NAV that will be applied to your transaction will be of May 5 (that is the same day), calculated and announced at day end of May 5. It is mandatory for all mutual funds, except money-market funds, to adopt forward pricing mechanism.

19.5 What should an investor look for in an offering document?

Minimum disclosures in the offering document are prescribed that should be fully understood before investing in a fund. Due care must be given to portions relating to main features of the fund, risk factors, applicable taxes on dividend distribution and redemption of units, expense ratio of the fund vis-a vis expense ratio of similar other funds , management fee charged by AMC, entry or exit loads charged to the investors and conditions for their waiver, investment objectives, authorized investments and restrictions, sponsor's track record, educational qualification and work experience of key personnel including fund managers, performance of other funds launched by the AMC in the past.

19.6 Are non-resident Pakistanis (NRPs) eligible to invest in mutual funds?

Yes, non-resident Pakistanis can also invest in mutual funds. Necessary details in this respect are given in the offering documents of the funds which can be obtained directly from the AMC website, or through a distributor, if any, located in the country of the investor.

19.7 How to obtain a list of distributors?

A list of distributors normally appears in the offering document which is given to all investors. It can also be obtained directly from the AMC website. It is also available on MUFAP website.

19.8 Does the investor get a certificate for investment in a mutual fund?

The investor receives a statement of account as evidence of investment in a mutual fund. Unit certificates are only issued upon request by the investor on completing a prescribed application form and paying a fee.

19.9 When will the investor receive statement of account?

As required by regulations, an Asset Management Company (AMC) must send an investment account statement to each unit/certificate holder on the registered mailing address provided by the unit holder at least once in a year. Further, an AMC shall provide the account statement to the investors within 7 working days from the receipt of such request.

19.10 How to assess the performance of a mutual fund?

The performance of a fund is reflected in its net asset value (NAV) which is disclosed on daily basis. Although the past performance of a fund is not indicative of its future performance, it is useful to compare the fund's performance to its benchmark and other funds with similar investment objectives. The NAVs are also available on the websites of mutual funds and in the fund managers' report. All mutual funds are also required to disclose their NAVs on the website of Mutual Funds Association of Pakistan (MUFAP) www.mufap.com.pk. Currently, the MUFAP website provides a performance summary of month-to-date and year- to-date returns of all mutual funds.

19.11 How is an AMC compensated for its services?

The AMC charges a management fee based on a fixed percentage of the net assets of the fund. The AMC is entitled to a remuneration of an amount allowable by the SECP, and stipulated in the regulatory framework.

19/12 If mutual fund is wound up, what happens to money invested?

The beneficial ownership of the assets of the fund vests in the unit-holders. In case of winding up of the fund, the assets are sold, and liquidation proceeds net of allowable expenses are distributed to the unit holders in proportion to their ownership of the fund.

19.13 How can the investors redress their complaints?

Investors should approach the concerned AMC of the mutual fund with their complaints. SECP has also established a service desk on its website www.secp.gov.pk where the unit holders can file their complaints online or can write to SECP.

ABC FUNDS

INVESTMENT FORM (FOR PURCHASE OF UNITS)
(FORM: AAML-02)

1. ACCOUNT DETAILS

Name of Applicant: ________________________________ Folio No. ____________

2. PAYMENT DETAILS

Mode of Payment ☐ Cheque ☐ Pay Order ☐ Demand Draft ☐ Transfer No.: ____________ Date: ____________

Drawn on (Bank & Branch): ________________________________

3. INVESTMENT DETAILS (All payments shall be made in the name of: "CDC-Trustee Name of Respective Fund")

Date of Investment: ____________ Investment Amount Rs. ____________ Rupees in words: ____________

Name of Fund	Administrative Plans	Asset Allocation AIF	Asset Allocation ASFM
☐ ABC Income Fund (AIF)	☐ Growth Plan	15	85
☐ ABC Stock Market Fund (ASMF)	☐ Balanced Plan	50	50
	☐ Income Multiplier Plan	85	15
		AISF	**AIIF**
☐ ABC Islamic Fund (AISF)	☐ Islamic Growth Plan	85	15
☐ ABC Islamic Income Funs (AIIF)	☐ Islamic Balanced Plan	50	50
	☐ Islamic Income Multiplier Plan	15	85
	☐ Systematic Payout & Systematic Withdrawal Plan (Please fill no. 4)		

4. SYSTEMATIC PAYOUT & SYSTEMATIC WITHDRAWAL PLAN (Applicable for Islamic Income Fund only)

☐ **Systematic Payout Option** (Income based on performance of the fund)

☐ **Systematic Withdrawal Option** (Income based on requirements of the investor), please specify amount in Rs. ____________ (Please note that in case of fixed income units if the income required exceeds income earned on the Fund, the principal invested may deplere over time).

Periodic Payment (Please Tick any one): ☐ Monthly ☐ Quarterly ☐ Semi-annually ☐ Annually

Systematic Investment Plan (Minimum Investment amount shall be Rs. 5,000):

Systematic Investment Amount Rs. ____________ **Investment Frequenct** (Please Tick any one): ☐ Monthly Quarterly

☐ No. of Post Dated Cheques: ____________ ☐ Stand by/Auto Debit Date: ____________

5. CERTIFICATE INSTRUCTIONS

Certificate Instructions: Units will be issued in registered, uncertified form and will be confirmed by means of an Account Statement issued by the Transfer Agent. Unit Certificates(s) will be issued only if requested and payments of 25 per Certifiacte. Payments of Certificate(s) may be combined with the payment for Units.

No. of Certificates: ____________ Denomination Units): ____________

6. DECLARATION

I/We declare that I am/we are not minor(s). I/We will not claim repatriation from Pakistan of dividend and sale proceeds of the Unit(s) except as permissible under the rules of State Bank of Pakistan or Ministry of Finance, Government of Pakistan. I/We have read the Offering Documents(s) of the respective ABC Fund(s). I/We apply for the Units of the Scheme(s) and I/We agree to abide by the terms, conditions, rules and regulations of the Scheme. I/We confirm to have understood the terms and conditions, investment objectives, strategy, fundamental objectives and risk factor applicable to the respective ABC Fund(s).

	Name of Applicant(s)/ Signatory	Designation (In case of Institution)	Signature (with Rubber Stamp in case of Institution)
Principal Applicant/ Signatory			
First Joint Holder/ Signatory			
Second Joint Holder/ Signatory			
Third Joint Holder/ Signatory			

7. PROVISIONAL RECEIPT (Please make sure to take the receipt with you)

Received from Mr./Mrs./Ms./Messers: ________________________________ | Date | Authorized Branch:

Name of Fund Plan: ________________________________ | (Satmp)

Amount Received (Rs.): ____________ In Words: ________________________________ | Authorized Signatory:

Mode of Payment: ☐ Cheques ☐ Pay Order ☐ Demand Draft ☐ Transfer No.: ____________ Date: ____________

Drawn on (Bank & Branch): ________________________________

Appendix-B

KYC (know your customer) Form for Individual Investor

This form is meant and adopted to establish the identity of the client by using reliable, independent source of documents, data and information, under the Nonbanking Finances Companies and Notified Entities Regulations, 2008.

1. Name (Mr./Mrs./Ms.) 2. CNIC No.

3. Age

Between 18-25 Between 46-60 Between 26-35

Above 60 Between 36-45

4. Marital Status Single Married

5. No of Dependents ____

6. Occupation

Service (Pvt.) Self-employed Housewife

Other (please specify) ____

7. Education

Undergraduate Graduate Postgraduate

Professional Other __________________________________

8. Source of Funds (multiple options can be selected)

Salary Family Business (Please specify)

Inheritance Stock / Investments Home Remittance

9. Approximate Annual Income (Optional) ___________________________________

10. Ultimate Beneficiary of the Investments (if different from investor)
(If ultimate beneficiary is other than the account holder please provide NIC and other relevant information for him/her)

Date Unit Holder's Signature

Documents to be attached for Individual / Sole Proprietorship
(if not already y provided)

a. Copy of NIC / Passport

b. Business / Employment Proof

Note: Tax and Zakat Exemption Certificate / Affidavit are
Mandatory if exempted.

Appendix-C

Information for FATCA Compliance for Joint Holder / Guardian / Child

Principal Unit Holder Name (Ms./Ms./Mrs.) ______________________ CNIC Number [| | | | | – | | | | | | | – |]

Additional Information for following categories. Please tick (✓) appropriate box.

Customer ID [| | | | | | | | | – |]

☐ Joint Holder (Please use separate sheet for all Joint Holders)

☐ Guardian (In case of minor account)

☐ For Child (In case of investment in Children Savings Plan)

In case of child's age is less than 18, guardian will provide the information and sign the declaration on behalf of the minor.

Name ____

Nationality __________ Do you have other Nationalities? (If yes please disclose all Nationalities) Nationality 2. ______ Nationality 3. ________

Country of Residence ____________ Do you hold U.S. Permanent Resident Card (Green Card)? ☐ Yes ☐ No Country of Birth ________

Mailing Address type ☐ Own ☐ Care-of (Note: In case the address type is care-of, investors own address is mandatory)

Own Mailing Address: ____

______________________________ City ______________ Country ______________

Care-of Mailing Address: ____

______________________________ City ______________ Country ______________

Residence Phone (____) (____) ______________ Office Phone (____) (____) ______________ Mobile (____) (____) ______________

country code city code country code city code country code city code

Note: Country and city code information are mandatory

In order to fulfill this requirement, if applicable on you, we must receive your completed W-9 or W-8 form and/or other forms of documentation that certifies your status as U.S. taxpayers or not, declaring your tax status.

In consideration of XYZ Fund Managers maintaining/continuing to maintain my/our accounts with it, I / We expressly and unconditionally authorize XYZ Fund Managers Ltd. to disclose relevant account and / or personal information to third parties including the US tax authorities as well as take necessary action including stopping redemption from my / our accounts and / or withholding of tax for the purpose of XYZ Fund Managers Ltd. complying with its obligations under the US Foreign Account Tax Compliance Act ("FATCA").

I / We undertake to fully cooperate with XYZ Fund Managers Ltd. to ensure it meets its obligations under FATCA in connection with my / our accounts.

I / We irrevocably confirm and undertake that I/We shall indemnify, defend and hold harmless XYZ Fund Managers Ltd. its directors, officers and employees from any loss, action, cost, expense (including, but not limited to sums paid in settlement of claims, reasonable attorneys' and consultant fees, and expert fees), claim,damages, or liability which may be suffered or incurred by XYZ Fund Managers Ltd. in discharging its obligations under FATCA and/or as a result of disclosures to

the US tax authorities.

I/ We acknowledge and accept that the XYZ Fund Managers Limited reserves the right to close or suspend without prior notice, my/ our accounts if required document / information is not submitted within stipulated time.

______________________________ ______________________________

Principal Unit Holder's Name Principal Unit Holder's Signature

______________________________ ______________________________

Joint Holder / Guardian Name (in case of minor) Joint Holder / Guardian Signature (in case of minor)

Appendix-D

Redemption Form

Date: ________________

I/We request you to redeem my/our Units according to the provisions of the Trust Deed(s) an d the Offering Document(s) of the respective Funds	
Name (Principal Account Holder)	
CNIC/ Passport No. (Incase of Individual)	_ _ _ _ _ – _ _ _ _ _ _ _ – _

1. NAME OF FUND(S)	NO. OF UNITS TO BE REDEEMED	OR

Certificates Issued: No Yes (Certificate No (s).

Please note that the redemption cannot be processed unless original Certificate (s), if issued to you, are returned to us

Please send the payment to Registered Address (as per record) Q Bank Account (As per record)

Registered Address (If Changed from record)

In case registered Address is selected, mark the preferred mode of payment Cheque Pay Order Demand Draft

Bank Account (if different from record)

Bank Name:

Branch Address:

Account Number:

Declaration
I/We hereby acknowledge having read and understood the relevant Trust Deed(s), Offering Document(s) and guidelines (on the back of this Form) that govern this transaction and further acknowledge having understood the risks involved and I/We agree to abide by the terms and conditions therein:

Sr. No.	Name of Signatory	Signature
(i)		
(ii)		
(iii)		
(iv)		

Rubber Stamp (in case of Institutional Client)

Distributor's/ Branch Code			
Branch Manager Staff No.			
Investment Consultant Staff No.			
Originator Staff No.			
Details of Certificates & Units received from Unit Holder		Name of Authorized Person from the Distribution Centre	Transaction Date
Certificate(s)	Unit(s)		

Form Received On	Signature Verified by	Certificate Issue by	Transaction ID	Data Input by	Redemption Rate

SECP

Jama Punji is an Investor Education Initiative of
Securities and Exchange Commission of Pakistan

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