MCB-ARIF HABIB
Savings and Investments Limited

Basic Sales Training Manual

For New Inductees & Existing Sales Team

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About MCB-Arif Habib Savings and Investments Limited

MCB-Arif Habib Savings and Investments Limited ("MCB-AH" or "Company") is a Public Limited Company listed on Pakistan Stock Exchange. The Company is registered as a Pension Fund Manager under the Voluntary Pension System Rules, 2005, as an Asset Management Company and an Investment Advisor under the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003. MCB-AH is a member of the Mutual Funds Association of Pakistan (MUFAP).

Pakistan Credit Rating Agency Limited (PACRA) has assigned highest Asset Manager Rating of AM1 to MCB-AH. This high quality Asset Manager Rating denotes that MCB-AH meets or exceeds the overall investment management industry best practices and highest benchmarks.

MCB-AH is currently managing fifteen (15) Open-end Schemes, two (2) Voluntary Pension Schemes and more than fifty (50) Discretionary and Non- Discretionary Portfolios. The Company has over 100,000 Customers comprising individuals, sole-proprietorships, retirement funds, public and private sector entities and charitable institutions. The Assets under Management of MCB-AH as of September 2021 are Rs. 162.20 billion.

MCB-AH was incorporated in the name of Arif Habib Investment Management Limited (AHIML) on August 30, 2000 as an unquoted Public Limited Company. During 2008, AHIML was listed on the Karachi Stock Exchange Limited (now integrated into the Pakistan Stock Exchange Limited) by way of offer for sale of shares by a few of its existing shareholders to the general public. In the same financial year, the name of AHIML was changed from "Arif Habib Investment Management Limited" to "Arif Habib Investments Limited" (AHIL). On January 19, 2011, a transfer agreement was signed between Arif Habib Corporation Limited (AHCL) [the then parent of AHIL] and MCB Bank Limited (MCB Bank) [the then parent of MCB Asset Management Company Limited (MCB AMC)] for transfer of the entire business of MCB AMC to AHIL to achieve synergies in business and to access a wider distribution network. The scheme of amalgamation ("the Scheme") was approved by the shareholders of AHIL and MCB AMC in their respective extraordinary general meetings held on May 21, 2011. The Scheme was also approved by the Securities and Exchange Commission of Pakistan (SECP) with the effective date of amalgamation being June 27, 2011 (the effective date). In accordance with the terms contained in the Scheme, the Company became a subsidiary of MCB Bank Limited from the end of the year ended June 30, 2011 which owns 51.33% ordinary shares in the Company till date. Pursuant to the merger of MCB AMC with and into AHIL, the name of AHIL has been changed to MCB-Arif Habib Savings and Investments Limited, effective from May 23, 2013.

What We Do

As the most experienced Asset Management Company in Pakistan, we offer a comprehensive range of investment solutions especially designed to help you achieve your financial goals. Our team manages 15 Mutual Funds, 2 voluntary pension schemes and different investments plans in its product portfolio to meet the investment needs of its growing clientele.

Vision Statement

To become synonymous with Savings

Mission Statement

To become a preferred Savings and Investment Manager in the domestic and regional markets, while maximizing stakeholders' value.

Introduction to Financial Services and Products

Before we begin to understand what mutual funds are and how they operate, it is more appropriate to have brief overview of the significance of the following terms:

- Financial Services Sector
- Retail/commercial banks
- Mutual funds and Pension Funds
- Insurance companies
- Fund managers/asset management companies
- Custodians
- Industry trade bodies (MUFAP)
- Stock exchanges

Financial Services Sector

The economy is made up of many different segments called sectors. These sectors are comprised of different businesses that provide goods and services to consumers. The companies that are grouped together in a sector provide a similar product or service. For instance, companies that offer agricultural services make up the agricultural sector. Corporations that provide mobile or cellular telephone services are part of the telecommunications sector.

The financial services sector provides financial services to people and corporations. This segment of the economy is made up of a variety of financial firms including banks, investment houses, lenders, finance companies, brokerage houses, and insurance companies.

Companies in the financial services industry manage money. For instance, a financial advisor manages assets ***(investor's money***) and offers advice on behalf of a client. The advisor does not directly provide investments or any other product, rather, they facilitate the movement of funds between savers and the issuers of securities and other instruments.

Retail/Commercial Banks

A commercial bank is a type of financial intermediary and a type of bank. It is a bank that provides checking accounts, savings accounts, and money market accounts and it accepts time deposits. Commercial banks also function as retail bank. Retail banking function refers to banking in which banking institutions execute transactions directly with consumers, rather than corporations or other banks. Services offered by commercial banks include: savings and cheque accounting, mortgages, personal loans, debit cards, credit cards, and so forth. Most banks offer both commercial and retail banking services.

Mutual Funds

Mutual Fund is a pool of money (Collective Investment) belonging to a group of investors, who entrust it to a Fund Manager (Asset Management Company) for making prudent investments on their behalf. These investments are made strictly in accordance with the Investment Policy laid down in the Constitutive Documents of the Fund. The ownership of the Fund Property vests in the investors and the Fund manager is entitled only to certain fees, paid by the Fund (by the investors) for managing the Fund.

Asset Management Companies have professional management, with a portfolio manager to monitor its holdings and decide which security to buy, hold or sell. Shares/units of the fund are sold to the public at price which is technically called Net Asset Value (NAV) per unit that are subject to certain adjustments. How well the Fund is performing at any time is partly reflected in a rising or declining NAV per unit at that time.

Mutual Funds are primarily structured in two ways; the more common structure is an Open End Fund, from which units can be redeemed at any time at a price that is tied to net asset value of the fund. Mutual Funds can also be structured as Close End Fund in which a fixed number of redeemable shares are sold at an initial offering and are then traded like common stock on the Stock Exchange or Over-The-Counter (OTC) market.

There are, however, different categories of mutual funds such as Money Market, Income, Balance Equity etc. We will certainly discuss the structure of categoreis in coming chapter, however, it’s appropriate to keep a brief sketch in mind now.

- *There are funds that specialize in debt instruments that may, in turn focus/specialize in corporate or sovereign debt.*
- *Similarly funds that invest in common stocks may specialize and invest solely in specialized markets or sectors.*
- *Another type of fund, known as an index fund, doesn't try to beat the performance of the overall market, but tries to equal it. Manager of Index Funds buy a portfolio that is a mirror image of an index and therefore less research and expertise is required to manage such funds.*

A mutual fund's performance can be judged from the ***consistency of returns on year after year basis***. Buying the top funds of the prior year can sometimes be disappointing, since high flyers of one year **may not guarantee** similar results in later years. *(Remember: investment in mutual funds does not provide any kind of quaranted returns)*

Investing in mutual funds requires first doing some basic homework, setting goals, selecting appropriate funds closely matching investment objectives. Mutual Funds should normally be seen by the investors as a relatively longer term investments (minimum five year horizon).

General Meaning of Pension Fund

Pension Fund is normally understood to mean a fund established by an employer to facilitate and organize the investment of employees' retirement funds contributed by the employer and employees. The pension fund is a common asset pool meant to generate stable growth over the long term, and provide pensions for employees when they reach the end of their designated working life (also known as superannuation) and commence retirement.

Voluntary Pension Schemes in Pakistan

The Voluntary Pension System (VPS) in Pakistan is a ***self-contributory pension* savings scheme** open to all adult Pakistanis registered with the tax authorities or having a CNIC, who are usually not covered by other occupational pension schemes.

Voluntary Pension System (VPS) is a comprehensive framework for the employed and self-employed individuals under which:

- they voluntarily contribute to a Pension Fund during their working life to provide regular income after retirement;
- thus, they seek to enable themselves to maintain a reasonable standard of living after retirement

Insurance Companies

Insurance is defined as the equitable transfer of the risk of a loss, from one entity to another, in exchange for payment of a premium, and can be thought of as a guaranteed small cost (premium) to prevent a large, possibly devastating loss. Insurance companies perform risk management that is primarily used to hedge against the risk of a contingent loss. An ‘insurer’ is the company selling the insurance while; an ‘insured’ is the person or entity buying the insurance. Insurance companies are one of the major institutional investors in equity and debt markets.

Asset Management Companies (AMC)

Asset Management Company provides the professional management of various securities (shares, bonds etc.) and assets (e.g., mutual funds), to meet specified investment goals for the benefit of the investors. Investors may be institutions (insurance companies, pension funds, corporations etc.) or private investors.

Non-Banking Finance Companies and Notified Entities Regulations, 2008 define Asset Management Company (AMC) to mean *"Non-Banking Finance Companies licensed by the Commission to provide asset management services".*

While the Voluntary Pension System Rules, 2005 define AMC to mean *"A company which has been licensed by the Commission under rule 5 of the Non-Banking Finance Companies Rules, 2003, to offer investment schemes under trust deeds and to issue redeemable securities".*

Custodian

Custodian is a trust company, bank or similar financial institution responsible for holding and safeguarding the securities owned within a mutual fund on behalf of investors. A mutual fund's custodian may also act as the mutual funds transfer agent, maintaining records of unit-holder transactions and balances. Since a mutual fund is essentially a large pool of funds from many different investors, it requires a third-party custodian to hold and safeguard the securities that are mutually owned by all fund's investors. This structure mitigates the risk of dishonest activity by separating the fund managers from the physical/holding of securities and investor records.

Stock Exchanges

A stock exchange is a corporation or mutual organization which provides "trading" facilities for stock brokers and traders, to trade stocks and other securities. Stock exchanges also provide facilities for the issue and redemption of securities as well as other financial instruments including the payment of income and dividends. The securities traded on a stock exchange include: shares issued by companies, unit trusts, pooled investment products and TFCs/bonds. For a security to be able to trade on a certain stock exchange, it has to be listed at that exchange. Historically there used to be a central location at least for recordkeeping, but now trade is less and less linked to such a physical place, as modern markets are electronic networks, which gives the Stock Exchanges efficiencies and also the advantages of speed and reduced cost of transactions.

The initial offering of stocks and bonds to investors is by definition done in the primary market and subsequent trading is done in the secondary market. Stock not traded through the stock exchange is said to be traded off-exchange or over-the-counter (OTC) market. This is normally the manner that bonds are traded.

What is Primary Market

The Equity Market, also known as the Stock Market or the Stock Exchange, is the market where investors can buy shares of listed companies that have already floated their shares through an IPO.

When new issues of a security, such as bonds or stock/shares are sold to the initial buyers by a Company [as in the case of an Initial Public Offering (IPO)] or a government agency, it is known as a transaction in the Primary Market.

Advantages of Primary Market (as opposed to Secondary Market):

- Shares/Units are, normally, offered at their Face Value
- Tax Credit can be claimed in Pakistan on the invested amount under Section 62 of the Income Tax Ordinance, 2001

Disadvantages of Primary Market (as opposed to Secondary Market):

- If the Issue is oversubscribed, the investors will receive shares only if they succeed in the balloting. Hence, one can, normally, expect to buy only a small quantity of shares through the Primary Market.
- An IPO can be a risky investment. For the individual investor, it is tough to predict what the stock or shares will do on its initial day of trading and in the near future since there is often little historical data with which to analyse the company. Also, most IPOs are of companies going through a transitory growth period, and they are therefore subject to additional uncertainty regarding their future value. However, in order to make money, calculated risks need to be taken.

What is Secondary Market

When there is a sale/purchase transaction of securities that have previously been issued (and thus second hand), between two investors through their Brokers on the Stock Market, it is known as a transaction in the Secondary Market.

Advantages of Secondary Market (as opposed to Primary Market):

- Subject to availability of a willing seller at the right price, any number of shares can be bought/sold

Disadvantages of Secondary Market (as opposed to Primary Market):

- Buyer has to pay the Market Price of the share, which is determined on the basis of demand and supply
- Tax Credit is not available on such transactions

Industry Trade Bodies (MUFAP)

Each segment of financial industry has its own sector specific Associations; like leasing sector has Leasing Association of Pakistan (LAP) and Commercial Banking has Pakistan Banks Association (PBA).

The Mutual Funds Association of Pakistan (MUFAP) is the representative trade body of the Asset Management Companies managing Mutual Funds in Pakistan. The money managed by its members in a wide variety of investment vehicles including stocks, bonds, money market instruments, government securities and bank deposits.

These trade bodies try to promote transparency, ethical conduct and growth of industry. These trade bodies are also policy advocacy mechanisms for each financial sector they represent. Trade Bodies have invariably been established as Associations not-for-profit licensed under the Section 42 of the Companies Ordinance, 2017.

Understanding Different Form of Products and Asset Classes

What is Asset Class?

Asset class is a grouping of investments that exhibit similar characteristics and are subject to the same laws and regulations. Asset classes are thus made up of instruments that often behave similarly to one another in the marketplace

Equities (e.g., stocks), fixed income (e.g., bonds), cash and cash equivalents, real estate, commodities, and currencies are common examples of asset classes.

Cash Deposits

A cash deposit is held at a financial institution and is either in form of a demand deposit or term deposit. The demand deposit can be withdrawn at any time, in other words the deposited amount is available to the account holders on demand. The term deposits are generally for short to medium term with maturities ranging anywhere from few days to few years. When a term deposit is purchased, the lender (the customer) understands that the money can only be withdrawn after the term has ended or by giving a predetermined number of days' notice.

Cash deposits are comparatively safer investments as compared to some securities and are therefore very appealing to conservative, low-risk profiled investors, with the return on investment being the prevailing interest rate that is normally much lower than the rate of inflation. By having the money tied up for fixed period of time (term), investors generally get a higher rate of returns compared with a demand deposit.

Government Bonds/ Secuirties

A bond is a debt security or a formal contract where the issuer (borrower) agrees to repay the holder (lender) the money with an interest rate (coupon) at fixed intervals. The Bond Market is important to economic activity because it enables the private businesses/ corporations or the Government to borrow money from the private individuals or financial intermediaries to finance their activities.

A government bond is simply a contract between the State and investor to repay borrowed money to the lender who can either be individuals or institutions. Raising money by government through issuance of bonds and/or borrowing from intermediaries (banks) is normal for governments especially when the revenue resources are limited.

Corporate TFCs

Usually, the corporate TFCs/ bonds are issued by corporations to raise money in order to finance its business. The term the 'TFC/Bond' is usually applied to longer-term debt instruments, generally with a maturity date falling at least one year after their issue date. The term "commercial paper" is used for similar instruments but which has a shorter maturity.

Corporate TFCs/ bonds are often listed on stock exchanges (are called "listed" TFCs/ bonds), and the coupon (i.e. interest payment) is usually taxable. Sometimes this coupon can be zero, the zero coupon bond also called 'discount bond' is bought at a price below its face value (discount) and the face value is repaid at the maturity date. Unlike coupon bond a discount bond does not make any interest payments; it just pays off the face value. Some corporate TFCs/ bonds have an embedded call option that allows the issuer to redeem the debt before its maturity date. Other bonds, known as convertible bonds, allow investors to convert the bond into equity.

Equities

Equity investment generally refers to the buying and holding of shares/securities of company on a stock market by individuals and funds in anticipation of income from dividends and capital gain. By buying shares/equities of the company, the investor becomes part owner of the company. When the investment is made in shares of infant companies, it is referred to as venture capital investing and is generally understood to be of higher risk than investment in listed companies who have a long proven track record of performance.

Commodities

Commodity is a basic good used in commerce for which there is demand, but which is supplied without qualitative differentiation across a market i.e. it is essentially the same no matter who produces it and that it is interchangeable with other commodities of the same type. One of the important characteristics of a commodity is that its price is determined as a function of market and is normally universal and fluctuates on a daily basis on global supply and demand considerations; examples are petroleum, gold, sugar, wheat or copper. The commodities can be differentiated from the manufactures by the simple fact that manufactured products have many aspects of product differentiation, such as the brand, the user interface, the perceived quality etc.

Generally, Commodities are basic resources and agricultural products such as iron ore, crude oil, coal, ethanol, salt, coffee beans, sugar, soya beans, aluminium, copper, rice, wheat, gold, silver, palladium, and platinum. Soft commodities are goods that are grown, like wheat, maize while hard commodities are the ones that are extracted through mining.

Because these are used in consumption or as raw material therefore these are sensitive to consumer sentiments. Commodity markets can be highly volatile and respond very quickly to changes in supply and demand equilibriums. Investors normally can gain exposure to future changes in commodity markets through the commodity future market or a commodity Fund.

The difference between Retail and Institutional Investors

Historically, buyers and sellers have been individual investors, such as wealthy businessmen, with long family histories to particular corporations. Over the time, markets have become more "institutionalized"; buyers and sellers are now largely institutions (e.g., pension funds, insurance companies, mutual funds, index funds, exchange traded funds, hedge funds, investor groups, banks and various other financial instruments). The rise of the institutional investor has brought with it some improvements in market operations and governance.

Investor

An investor is any party that makes an Investment. However, the term has taken on a specific meaning in finance to describe the particular types of individual people and corporate entities that regularly purchase equity or debt securities for financial gain. Less frequently the term is also applied to parties who purchase real estate, currency, commodity derivatives, personal property, or other assets.
Typically, investments can be made by two different kinds of investors: retail investors and institutional investors. Here, we take a deeper look at the differences between retail versus institutional investors and some of the potential advantages for each of these financial market participants.al investors and some of the advantages of each kind of investing.

Institutional Investor

An institutional investor is normally a corporate entity, such as a bank, insurance company, pension fund or mutual fund that is financially sophisticated and makes large investments, often held in large portfolios of investments. Because of their sophistication, institutional investors often participate in private placements of securities, in which certain aspects of the securities laws may be inapplicable.

An institutional investor is an entity that makes investment decisions on behalf of individual members or shareholders. As institutional investors have large resources and new technology at their disposal, they are able to put in a lot of research and financial analysis when reviewing investment options. Examples of institutional investors include:

- Pension Funds
- Mutual Funds
- Hedge Funds
- Insurance Companies
- Banks
- Endowment Funds

Potential pros of being an Institutional investor:

1. Lower Fee
2. Better access to information
3. Resources and buying in bulk
4. Access to larger assets

Retail Investor

A retail investor is an individual investor who has investments in shares of a given security or units of a fund. Investments are slightly different to savings as these carry possibilities of growth and accompanying risk. Retail investors in Pakistan can generally be divided into two categories of share ownership.

- A retail investor holds shares of their securities directly through the issuer or its transfer agent in their Depository Company account. Some registered shareholders also have physical copies of their stock certificates.
- An investor in the mutual fund units.

Retail investors are sometimes also called individual investors or retail traders. These are non-professional investors who purchase assets such as stocks, bonds, securities, mutual funds, and exchange traded funds (ETFs). They are only able to make these purchases by going through another party such as a brokerage firm, investment adviser, investment manager, or other financial professional. These are individuals who tend to be motivated to invest because they are looking to safeguard their future and build their personal wealth through an investing strategy. As retail investors and market participants tend to have a smaller purchasing power that stems from their personal earning ability, they also tend to invest in smaller amounts and trade less frequently than their institutional counterparts.

Potential pros of being a retail investor:

1. Able to play the long game
2. Smaller investments are easier to make
3. Able to hold cash
4. Liquidity
5. Personal interest and focus

Wholesale Institutions

A mutual fund wholesale institution is a company or person who takes the responsibility of talking to brokers and financial planners and sells the units/shares of the Mutual Fund. The wholesale institution in the context of Mutual Funds tries to convince the investors to buy the mutual funds they are whole selling. The mutual fund wholesalers help in reviewing the mutual funds and tailor investment to meet the investment objectives and risk profiles of the investors.

Speculation

Speculation, can be in many forms, however, in the narrow sense of financial speculation, involves the buying, holding, selling and short-selling of stocks, bonds, commodities, currencies, collectibles, real estate, derivatives or any valuable financial instrument primarily to profit from fluctuations in its price as opposed to buying it either for use or for income via methods such as dividends or interest and/or for long term capital gains. In short, speculators in an asset have no intention to have long term exposure but seek short term profits.

Understand the concept of Time Value of Money and Savings

Time Value of Money

The concept suggests that money available at the present time is worth more than the same amount in the future due to its potential earning capacity. This core principle of finance holds that, provided money can earn interest, any amount of money is worth more the sooner it is received.

The time value of money is, thus, the value of money figuring in a given amount of interest earned over a given amount of time. The method of calculating provides valuation of a likely stream of income in the future, in such a way that the annual incomes are discounted and then added together, thus providing a lump-sum "present value" of the entire income stream.

For example, assuming a 5% interest rate, Rs1000 invested today will be worth Rs1050 in one year (Rs100 multiplied by 1.05). Conversely, Rs 100 received one year from now is only worth Rs 952.4 today (Rs 1000 divided by 1.05), assuming a 5% interest rate

The time value of money, in short represents the interest that might be earned on a payment received today, if held, earning interest, until that future date.

All the standard calculations derive from the most basic algebraic expression for the present value of a future sum, "discounted" to the present by an amount equal to the time value of money.

For example, a sum of FV to be received in one year is discounted (at the rate of interest r) to give a sum of PV at present:

$$PV = FV — r$$

$$PV = FV / (1+r).$$

Present Value

The present value is current worth of a future sum of money or stream of cash flows given a specified rate of return. Future cash flows are discounted at the discount rate, and the higher the discount rate, the lower the present value of the future cash flows. Determining the appropriate discount rate is the key to properly valuing future cash flows, whether they are earnings or obligations.

Present Value of an Annuity

An annuity is a series of equal payments or receipts that occur at evenly spaced intervals. Leases and rental payments are examples. The payments or receipts occur at the end of each period for an ordinary annuity while they occur at the beginning of each period for an annuity due. Present Value of Perpetuity is a constant stream of identical cash flows with no end. Future Value is the value of an asset or cash at a specified date in the future that is equivalent in value to a specified sum today. Future Value of an Annuity (FVA) is the future value of a stream of payments (annuity), assuming the payments are invested at a given rate of interest.

Inflation, Savings And Investments

Inflation is the rise in prices of goods and services in the country. We all know that things seem to cost more every day, but few fully realize just how much that eroding factor called inflation reduces the purchasing power of the money. Even with relatively low inflation, one steadily loses buying power of the money that one just holds on to by keeping it in bank deposit. To stay even, investors must invest at rates of return that at least match inflation rates. The real rate of return, in terms of buying power of money, is savings or investments rate of return less the inflation rate.

Nowhere on bank or brokerage statement, there is a report on what inflation is doing to the real value of your savings and investments. So if your money is stowed in a "safe" investment, like a savings or money market account, it will never be seen how inflation is eroding the returns being received on it.

If inflation is at 4 percent per year and the return is 5 percent per year after taxes then one has managed only a 1 percent gain in real buying power. If after-tax return is only 3 percent, then there is actually a 1 percent loss in the buying power. Inflation occurs when demand increases relative to the supply available. During periods of economic growth moderate inflation is expected. However, hyperinflation which is inflation of 100% a year or more is catastrophic for an economy as people lose confidence in the currency and in the economy. During hyperinflation assets like gold and real estate usually retain their real value.

Introduction To Mutual Funds

Concept of Mutual Funds

A mutual fund is a Collective Investment Scheme (CIS), which specializes in investing a pool of money collected from many investors for the purpose of investing in securities such as stocks, bonds, money market instruments and similar assets. A fund's portfolio is structured and maintained to match the investment objectives stated in its prospectus. One of the main advantages of Mutual funds is that they give small investors access to professionally managed, diversified portfolios of equities, bonds and other securities, which would be quite difficult, if not impossible, to create with a small amount of capital. The income earned through these investments and the capital appreciations are shared by unit holders of the fund in proportion to the number of units owned by each of them. Mutual Funds usually have low minimum initial investment requirements. This gives the investors an access to the market and a chance to add to holdings in small increments.

Mutual fund is a pool of money belonging to a group of investors, who entrust it to a Fund Manager for making prudent investments on their behalf, strictly in accordance with the Investment Policy laid down in the Constitutive Documents of the Fund. The ownership of the Fund Property vests in the investors and the Fund Manager is entitled only to certain fees, paid by the Fund, i.e., by the investors, for managing the Fund.

Every mutual fund publishes an offering document that states its investment goal, investments (such as stocks or bonds) that it purchases, past performance, name of the fund manager, fees and how it derives its returns. A potential investor can also examine the annual and semi-annual reports.

When examining a mutual fund's performance, consistency of returns year after year is normally studied. Investing in Mutual Funds requires doing homework, setting goals, selecting appropriate funds and then keeps funds invested for long period (usually five years) so that seasonal variations or cycles are smoothed out.

Mutual Funds are operated by Asset Management Companies (AMC) which exists in the form of a Corporation, owned by its shareholders. The AMC launches new funds through the establishment of a Trust Deed, entered between the Asset Management Company and the Trustee, which in most cases is the Depository Company , with due approval from the SECP under the framework provided by the Non-Banking Finance Companies and Notified Entities Regulations, 2008 (the “Rules”).

The Depository Company performs the functions of the custodian and trustee, whereas the AMC can act as the registrar or can appoint an external registrar. Banking/financial companies may be authorized to act as distributors/ sales agents. The Board of Directors of AMC must also approve and appoint a legal advisor and auditor for legal and compliance affairs.

Mutual Funds in Financial Markets

By pooling the funds of large number of investors, mutual funds provide full-time and high-level professional management that few individual investors can afford to obtain independently. Such management is vital to achieving results in today's complex markets. The fund managers' interests are tied to the investments made, because their compensation is based not on sales commissions, but on how well the investments made under the fund perform. These Fund Managers have access to crucial market information and are able to execute trades on the large and cost-effective scale. In short, managing investments is a full-time job for these Funds manager who are qualified professionals.

Mutual funds invest in a broad range of securities. This limits investment risk by reducing the effect of a possible decline in the value of any one security. Mutual fund unit holders can benefit from diversification techniques that can only be available to real wealthy investors who can buy significant positions in a wide variety of securities. If somebody tried to create his own diversified portfolio of 50 stocks, he would need a very large amount of money and pay thousands more in commissions to assemble the portfolio. A mutual fund investor can participate in a diversified portfolio for as little as Rs.5000/- and sometimes even less. The Investor in Mutual Fund units/shares owns just one security rather than many, yet enjoy the benefits of a diversified portfolio and a wide range of services. Fund managers decide what securities to trade, and see that dividends on portfolio securities are received and rights exercised. It's fairly easy to purchase and redeem mutual fund units.

An Investor can easily redeem his mutual fund units anytime when he needs cash and the sale proceeds are usually available to the investor within two – three days in case of most AMCs. The law, however, provides for a maximum of 6 days. Investors can tailor their investment products according to their plans of future individual and family needs, and make adjustments as their life cycle needs change. They can invest in growth funds for future college tuition needs of their children and then in income funds for retirement, and adjust the investments as their needs change with age and responsibilities in life.

For investors who want to actively manage their investments. They can move their funds within the family of funds as and when they perceive any change in market conditions. Investor can place their investments in equities fund when the market is bullish and move into money market funds in the anticipation of bearish stock market and rising interest rate atmosphere. A word of caution: since it is almost impossible to predict how the market will behave at any point in time, staying on a long-term in a diversified investment portfolio is recommended for most investors. Mutual fund unit holders receive regular reports from the funds, including details of holdings on a year-to-date basis.

The current Net Asset Value of mutual fund units (the price at which investor may purchase or redeem the units subject to normal adjustments) also appears in the mutual fund price listings on business pages of major daily newspapers. Because new units are issued every time an investment is made in Open-end Funds, such investments enjoy a Tax-break (just like the Tax-break enjoyed on investments in new shares of Companies), provided that the Fund is listed on at least one of the Stock Exchanges and such investment is not en-cashed for at least two years.

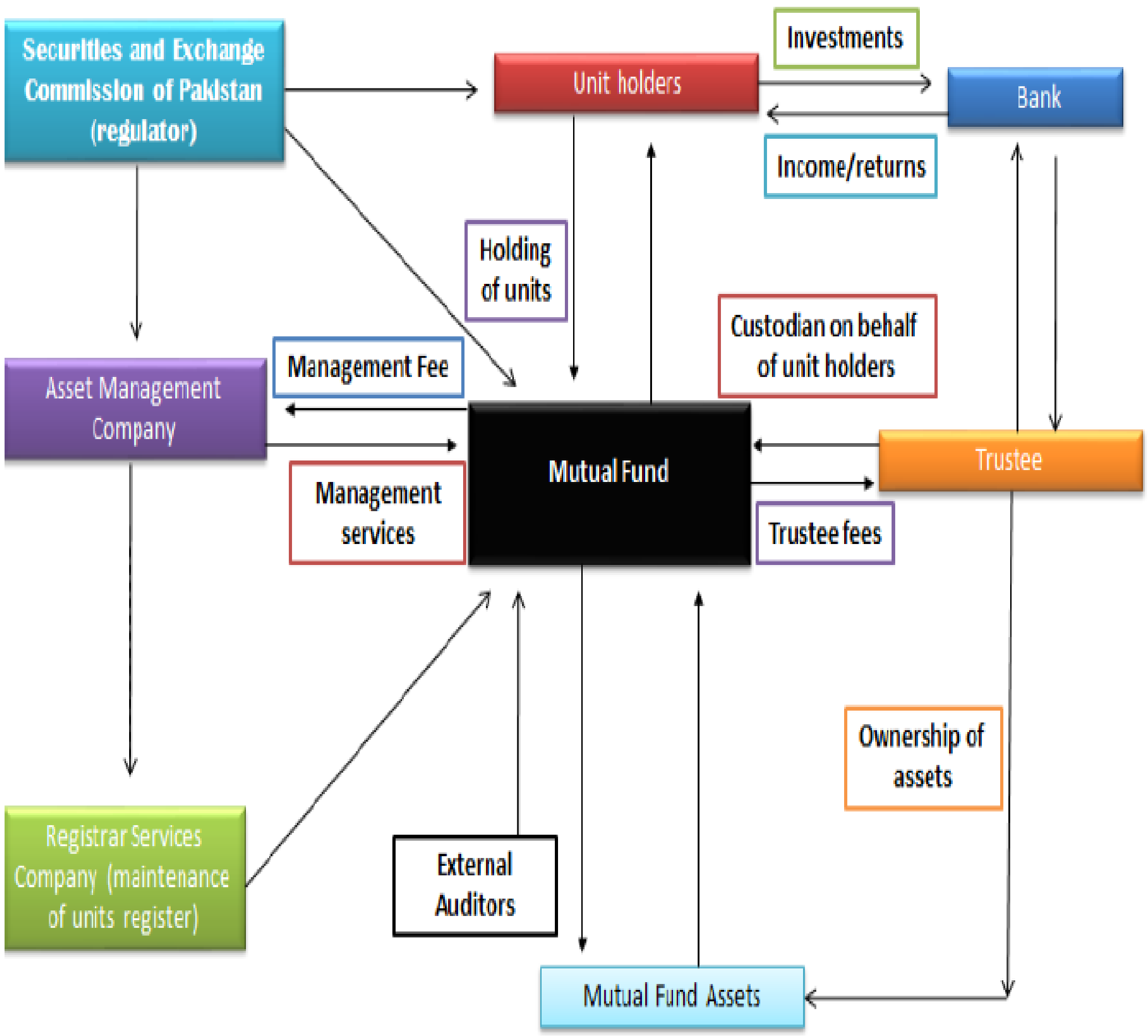
All Mutual Funds are regulated under the Non-Banking Finance Companies and Notified Entities Regulations, 2008 and are controlled and regulated by the Securities and Exchange Commission of Pakistan (SECP). The Commission's controls are fairly stringent and even an advertisement of a Mutual Fund has to be first approved by SECP before it can be released to the media. All Mutual Funds are obliged to appoint a Trustee which can be a Scheduled Bank having a minimum of 'A+' rating or a Depository Company. 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 vests in the Unit-holders. The Trustee is obligated to ensure that the Fund Manager:

- Takes all investment decisions within the framework of defined Investment Policy, and
- Does not take any action that is not in accordance with the provisions of the Trust Deed, the Offering Document or, which do not protect the interests of the Unit-holders.

Structure of the Mutual Funds

Mutual Funds are operated by Asset Management Companies (AMCs). AMCs manage all the investments and management functions related to client services, accounting, IT, etc. Mutual funds are set up as unit trust schemes. AMCs launch new funds through the establishment of a Trust Deed, entered between the Asset Management Company and the Trustee. All assets are controlled by trustee or custodian. It is the function of a trustee to ensure that the fund manager takes the investment decisions within the defined investment policy of the mutual fund. In Pakistan, banks and central depository company, approved by Securities and Exchange Commission of Pakistan, can act as trustee. At present, Central Depository Company of Pakistan (CDC) is acting as Trustee for the most of the funds. The Securities & Exchange Commission of Pakistan (SECP) is the regulator of mutual funds industry. SECP issues licences to fund management companies, especially in the case of Collective Investment Scheme (CIS). It carries out continuous monitoring of mutual funds through reports that are filed by the mutual funds on a regular basis. It also conducts on-site inspections of the Asset management companies. Extensive audit is carried out by external auditors. Mutual funds are regulated by NBFC and Notified Entities Regulations, 2008.

Flow of Investments in Mutual Funds and Back to Investors (Sketch)



Benefits Of Investing In Mutual Funds

Liquidity

Unit holders of mutual funds can convert their units into cash on any working day. They will receive the current value of their investments. The fund redeems the units.

Convenience and Fair Pricing

Mutual funds are very common and easy to buy. They have low minimum investments and they are traded only once per day at the closing net asset value (NAV) which eliminates fluctuation in prices throughout the day and various arbitrage opportunities as well.

Diversification

A reduced portfolio risk is achieved through the use of diversification technique. Most of the mutual funds will invest in anywhere from 50 to 200 different securities according to their focus. By investing the pool of unit holders' money across number of securities, a mutual fund diversifies its holdings. This is how a diversified portfolio reduces the investors' risk.

Tax benefits

Investments held by investors for a period of one year or more qualify for capital gains and will be taxed accordingly. These investments will also get the benefit of indexation.

Transparency

A unit holder is provided with regular updates and information on the fund's holdings and the fund manager's strategy as the performance of a mutual fund is reviewed by various publications and rating agencies which makes it easy for investors to compare fund to another.

Lower costs

Economies of scale make them a cost-effective option for investment. In this option, you can share costs with other investors such as individual transaction and management fees.

Professional Management:

AMCs evaluate all the opportunities that arise in the market. They examine them carefully and then take decision for investing the mutual fund's money whereas it is not an easy task for an individual and even for corporate entity if their core business is different.

Regulations

All mutual funds are required to register themselves with SECP (Securities and Exchange Commission of Pakistan). They all are obliged to follow all the rules and regulations designed by SECP to protect investors. SECP regularly monitors all their operations.

More About Open-End Funds

The Open End Mutual Funds *continuously issue new units on demand and simultaneously redeem these units on demand*. Therefore, the numbers of units outstanding at any particular point in time vary. An Open-end Fund does not have a fixed pool of money. The Fund Manager is committed to continuously issue Units to new investors at the Offer Price and buy-back Units from 'old' investors at the Repurchase Price, also known as Redemption Price. The units do not trade on a stock market.

Open-ended fund units are issued and can be purchased or redeemed as needed at the fund's current net asset value (NAV) per unit adjusted for offer/redemption price whereas mostly closed-end funds are listed on the stock exchanges and are freely traded as shares of any other company. Net Asset Value (NAV) of the units of an Open End Mutual Fund is published on the respective website of the fund manager and also in the newspapers.

The Fund is set up as a Trust, with an independent Trustee, who has custody of the assets of the Trust. Each share of the Fund is called a Unit and its Fund Manager is known as the Asset Management Company (AMC). The Fund, itself, is called a Unit Trust.

Net Asset Value (NAV)

At the close of every day the AMC calculates the Net Assets of the Fund which are divided by the then the total issued and outstanding Units of the fund which gives the Net Asset Value (NAV) of each Unit.

The Net Asset Value (NAV) is calculated everyday by dividing the Net Assets by the number of units issued and outstanding.

$$\textbf{Net Asset Value} = \frac{\textbf{Mutual Fund's Net Assets}}{\textbf{Units Outstanding}}$$

Offer Price

This is the price at which the Fund sells its Units to the investors. It is usually published in the newspapers as well as posted on the AMC's website every day.

Repurchase Price

This is the price at which the Fund buys-back its Units from the Unit-holders.

Mutual fund companies have professional management, with a portfolio manager to monitor investment holdings in a fund and who decides what equities to buy, hold or sell. Units of an Open End Mutual Fund are sold to the public at Net Asset Value (NAV) price adjusted for load. How well the fund usually makes the difference between a rising and a declining NAV.

Close-End Funds

A closed-end fund (CEF) is a publicly traded investment company. It collects money from investors through an initial public offering (IPO) and uses this money to invest in securities. The shares of a CEF are traded on a stock exchange like that of any other company.

Closed-end funds issue a specific number of shares and their capitalization is fixed. The shares are not redeemable, but are readily transferable and traded on either a stock exchange or the over-the-counter market. The price of a closed-end fund share fluctuates based on investor supply and demand i.e. the price is not linked to its book value but determined exclusively by the supply and demand factor. Closed-end funds are not required to redeem their shares unlike in the case of open ended funds.

The net asset value (NAV) of a CEF is the current worth of a share of the CEF. It is computed by deducting the total liabilities of the CEF from the total assets (the current market value of the securities held by the CEF plus cash), and dividing the result by the total number of outstanding units.

$$\textbf{NAV} = \frac{\textbf{Total Assets - Total Liabilities}}{\textbf{Units Outstanding}}$$

The NAV of a CEF fluctuates with the changes to the market price of the securities in which the CEF has invested. CEFs are publicly traded, that is, the shares of the CEF change hands in stock exchanges. The price at which the share of the CEF trades is called the market price.

The market price of a CEF shares are determined by the normal demand and supply principles of the market. Sometimes, when demand exceeds supply, the market price at which the shares of a CEF trade may be at a premium to the NAV, that is, the shares of the CEF cost more than its NAV. Likewise, when supply exceeds demand, the shares of the CEF may trade at a discount to its NAV, that is, the shares of the CEF cost less than its NAV.

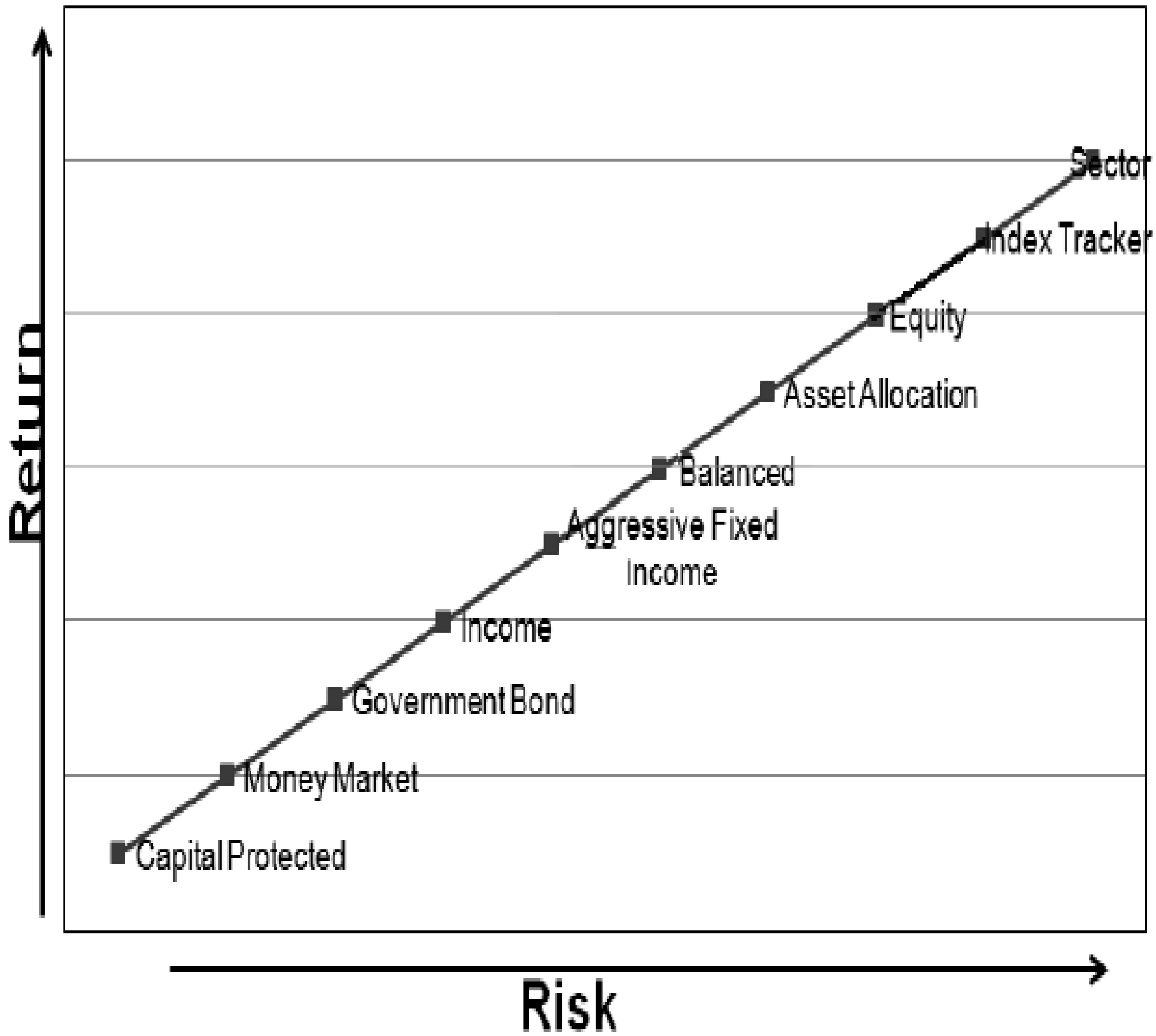
For example, if the NAV of a CEF is 10 and its market price is 12, the CEF is trading at a premium of 20%. If the NAV is 10 and its market price is 8, the CEF is trading at a discount of 20%.

The premium/discount may be computed using the following formula:

$$\textbf{Premium or Discount} = \frac{\textbf{Market Price} - \textbf{NAV}}{\textbf{NAV}}$$

Though some funds do at times trade at a premium, the majority of CEFs trade at a discount, often as much as 15% to 20%. The premium or discount is not constant, but usually fluctuates with market conditions. Often a fund that is trading at a discount may shoot up to a steep premium or vice versa, as investors' perceptions of the market changes.

Overview of the Relationship between Risk and Return in the Categories of Mutual Funds



Categories in Mutual Funds

Capital Protected Fund

A Capital Protected Fund is a type of mutual fund that guarantees an investor at least the initial investment made, plus any capital gains, if the units in the Fund are held for the contractual term. The idea behind this type of fund is that investor will be partly exposed to capital market returns because the fund is able to invest in the stock market, but simultaneously have the safety and the protected return principal.

A Capital Protected Fund essentially tries to guarantee that investor never loses his initial money but the fund can only increase its value. Most people use these types of funds to "protect" a certain percentage of their total investments. Most capital protected products have average to poor performance. But, they don't lose value because the fund invests in a mix of fixed income government securities and blue chip securities. So capital protected fund is type of low risk low return fund.

Money Market Fund

A money market fund is a mutual fund that invests its assets only in the most liquid of money instruments. The portfolio seeks stability by investing in very short-term, interest-bearing instruments and other debt certificates that can be converted into cash readily, and can be considered as the equivalent of cash.

Usually money market funds are considered as the safest for novice investors while being the easiest, least complicated to follow and understand. Almost every mutual fund investment company offers money market funds which are favourite investment tool for the new investors. They are regarded as the basic and conservative of all the mutual funds available.

Money market funds are considered appropriate for investors seeking stability of principal, total liquidity, and earnings that are as high, or higher, than those available through bank certificates of deposit. And unlike bank Term Deposits, money market funds have no early withdrawal penalties. The Money market Mutual Fund is recommended as an ideal investment for risk averse investor due to the advantages they offer including:

1. Safety of principal, through diversification and stability of the short-term portfolio investments
2. Total and immediate liquidity
3. Better yields than offered by banks
4. Low minimum investment

Income Funds

The objective of Income funds is to seek a high level of current income commensurate with each portfolio's risk potential. In other words, the greater the risk, the greater the potential for higher income yields, but simultaneously there is greater risk of loss of principal as well.

The risk/ reward potential are low to high, depending upon the type of securities that make up the fund's portfolio. The risk is very low when the fund is invested in government obligations, blue chip corporations and short-term securities. The risk is high when a fund seeks higher yields by investing in long-term corporate bonds, offered by new undercapitalized, risky companies.

Investors seeking current income higher than money market rates are willing to accept moderate price fluctuations and "balance" their equity (stock) portfolios with a fixed income investment usually invest in Income funds.

Income funds focus on dividend income, while also enjoying the capital gains that usually accompany investment in common and preferred stocks. These funds are particularly favoured by conservative investors.

Aggressive Fixed Income Fund

Aggressive fixed income fund focuses on generating current income on investments while maintaining the prospects for capital appreciation and potential for capital growth. These funds may invest up to specified percentages in accordance with its Offering Document in any one type of Authorized Investment and may aggressively change weightings to take advantage of economic trends. These Funds may hold some or even all of their assets in cash to either provide liquidity or for defensive purposes.

These Funds usually invest in a portfolio of diverse securities including:

a) Government Securities
b) Fixed Income debt securities
c) Deposits with Bank(s)
d) Clean placements with other financial investments
e) REPO transactions
f) Spread Transactions
g) Certificates of Investments and Deposits
h) Commercial Papers
i) Any other Authorized Investment Instrument

Growth Funds

The primary objective of Growth Funds is to seek long-term appreciation (growth of capital). The secondary objective is to make one's capital investment grow faster than the rate of inflation. Dividend income is considered an incidental objective of Growth Funds. Growth funds are best suited for investors interested primarily in seeing their principal grow and are therefore to be considered as long-term investments - held for at least three to five years. Jumping in and out of growth funds tends to defeat the purpose.

Investors likely to participate in Growth Funds are those willing to accept moderate to high risk in order to attain growth of their capital and those investors who characterize their investment temperament as "fairly aggressive."

Growth funds are similar to aggressive growth funds, but do not trade stock options or borrow money with which to trade. Most growth funds usually do a little better during bull markets, but do a lot worse than average during bear markets.

Balanced Funds

The basic objectives of balanced funds are to generate income as well as long-term growth of the principal amount that has been invested. These funds generally have portfolios consisting of bonds, preferred stocks with some percentage of common stocks. The funds are not expected to rise steeply, but simultaneously have a high degree of safety and moderate to high income potential. Investors who desire to invest in secure fund with a minimum downside i.e. who seek some current income and moderate growth with low-level risk, would do well to invest in balanced mutual funds.

SECP has laid down a criteria that provides that under balanced schemes/funds investment should be made in listed equity securities, government securities, cash in bank accounts, money market placements, deposits, certificate of deposits (COD), Certificate of Musharakas (COM), TDRs, Commercial papers, REPO, TFCs/Sukkuks, and preference shares. However, the rating of any debt security in the portfolio has necessarily to be not lower than A- (A Minus).

Equity Funds

An equity fund is a mutual fund that invests primarily in stocks. For this reason it is also known as a 'stock' fund. Equity funds vary in size and composition. They are determined by company size and the investment style of the portfolio holdings. The size of the fund is determined by its market capitalization. Equity funds may be domestic or foreign/

international and can be broad market or sector specific. These can geographically be international, regional or single-country funds.

In any Equity Scheme at least 70% of its net assets should remain invested in listed securities during the year based on quarterly average investment, calculated on daily basis. The remaining assets of the fund can be invested in cash and/or near cash instruments which include cash in bank accounts (excluding TDRs), and treasury bills not exceeding 90 days maturity.

Why Equities?

Equity funds are used as a way to buy into a portfolio of stocks. The shareholder takes indirect ownership in a large basket of securities by purchasing units of the mutual fund. Equity funds are especially for those who want to own businesses to do it without starting their own company, investing in local companies, or picking stocks themselves.

Equities have out-performed other investment asset classes over the long-term. The average annual returns from 2001 to 2020 show that equities have performed much better than other classes. With growing maturity, investors have begun to realise this and have taken into stride the short-term volatility of this asset class.

Asset Allocation Funds

Asset allocation funds don't invest in just stocks, instead, they focus on equity, bonds, gold, real estate, and money market funds. This portfolio approach provides a very broad asset allocation and diversification and decreases the reliance on any one segment of the marketplace.

Fund of Funds

A "fund of funds" (FoF) is an investment strategy of holding a portfolio of other investment funds rather than investing directly in shares, bonds or other securities. This type of investing is also referred to as ‘multi-manager investment’. There are different types of 'fund of funds', each investing in a different type of collective investment schemes e.g., mutual fund, hedge fund, private equity or investment trust.

Investing in Collective Investment Scheme (CIS) increases the diversity for a small investor who can at best hold small range of securities directly. Investing in a Fund of Funds achieves even greater diversification.

Index Funds

The intent of an Index Fund is basically to track the performance of a specific index of the stock market. If the overall market advances, a good Index Fund follows the rise. If the market declines, so will the index funds. Index Funds' portfolios consist of securities listed on the popular stock market indices. It is also the intent of an Index Fund to materially reduce expenses by eliminating the fund portfolio manager. Instead, the fund merely purchases stocks that make up the particular index it follows.

The securities/stocks in an Index Fund portfolio rarely change and are weighted the same way as in particular market index which it tracks. Thus, there is little or no need for any great turnovers of the portfolio of securities. The funds are "passively managed" in a fairly static portfolio. An Index Fund is almost fully invested in the securities of the index it tracks. An index mutual fund never outperforms the market if judged against the tracked index but may out or under perform other indexes. The reduction of administrative cost in the management of an Index Fund also adds to its profitability.

In short Index Funds/schemes strive to mimic the stated index and discloses the likely tracking error in the Offering Document. Index schemes and Index Tracker Schemes however can only select an index (or a subset thereof) established by a recognized independent third party like a Stock Exchange.

Commodity Fund

Another possible type of Islamic Fund may be a Commodity Fund. In a fund of this type the subscription amounts are used in purchasing different commodities for the purpose of resale. The profits generated by the sale are the income of the fund which is distributed pro-rata among the subscribers. In order to make this fund acceptable under Shariah, it is necessary that all the rules governing the transactions are fully complied with. For example:

1. The commodity must be owned by the seller at the time of sale, therefore, short sales (where a person sells a commodity before he owns it) are not allowed in Shariah.
2. The commodities must be Halal; therefore, it is not allowed to deal in commodities like wine, pork meat, or similar other prohibited materials.
3. The seller must have physical or constructive possession of the commodity he wants to sell. (Constructive possession includes any act by which the risk of the commodity is passed on to the purchaser).
4. The price of the commodity must be fixed and known to the parties. Any price which is uncertain or is tied up with an uncertain event renders the sale invalid.

In view of the above and similar other conditions, it may be obvious that the current transactions that are prevalent in contemporary Commodity Markets, especially in the futures commodity markets do not comply with the above conditions for compliance with Shariah. Therefore, an Islamic Commodity Fund cannot enter into such transactions. However, if there are genuine commodity transactions observing all the requirements of Shariah, including the above conditions, a commodity fund may well be established. The units of such fund can also be traded in with the condition that the investment portfolio of the fund physically owns some commodities at all times.

Shariah Compliant (Islamic) Funds

In case of Islamic Funds, the investments are made in different instruments but these have to be in line with the Islamic Shariah Rules. The Fund investments are guided by Islamic Shariah Board.

Shariah Compliant Funds And Conditions

Shariah Compliant Equity Fund

In an Islamic equity fund the amounts are invested in the shares of joint stock companies. The profits are mainly achieved through capital gains earned by purchasing and selling the shares when the prices rise. Profits are also achieved through the receipt of dividends. If the main business of any company is not lawful in terms of Shariah, an Islamic Fund is not allowed to purchase, hold or sell its shares, because it will entail the direct involvement of the shareholder in that prohibited business.

Similarly the contemporary Shariah experts have a consensus on the point that if all the transactions of a company are in full conformity with Shariah, that includes the fact that company neither borrows money on interest nor keeps its surplus in an interest bearing account, its shares can be purchased, held and sold without any hindrance under the Shariah law. If a company is engaged in a Halal business, but, it keeps its surplus money in an interest-bearing account, wherefrom a small incidental income of interest is received, it does not render all the business of the company unlawful under Shariah.

The SECP requires that under Shariah Compliant (Islamic) Scheme/funds can only invest in Shariah compliant assets except money market Shariah Compliant Schemes. Credit Rating of any bank or DFI with which funds are placed should not be lower than A- (A minus) and the rating of Debt Instruments in the portfolio should not be lower than A- (A minus). Every Islamic Scheme should be categorized with respect to equity, fund of funds, income etc. in its constitutive documents and follow the conditions applicable to that specific category of fund.

Conditions for Investment in Shares

Investments and dealing in equity shares are acceptable under Shariah subject to the following conditions:

1. The main business of the company is not in violation of Shariah. Therefore, it is not permissible to acquire the shares of the companies providing financial services on interest, like conventional banks, insurance companies, or the companies involved in some other business not approved by the Shariah, such as companies manufacturing,

selling or offering liquor, pork, haram meat, or involved in activities like gambling and night club.

2. If the main business of the companies is Halal, like automobiles, textile, etc. but they deposit there surplus amounts in an interest-bearing account or borrow money on interest, the shareholder may express his disapproval against such dealings, preferably by raising his voice against such activities in the annual general meeting of the company.
3. If some income from interest-bearing accounts is included in the income of the company, the proportion of such income in the dividend paid to the shareholder must be given in charity, and must not be retained by him. For example, if 5% of the whole income of a company has come out of interest-bearing deposits, 5% of the dividend may be given in charity.
4. Under Shariah the shares of any company are negotiable only if the company owns some non-liquid tangible assets. If all the assets of a company are in liquid form (i.e. in the form of money that cannot be purchased or sold, except on par value) the shares of such company if trading above par are not Shariah Compliant because in this case the share represents money only and the money under Shariah cannot be traded in except at par.

Subject to these conditions, the purchase and sale of shares is permissible in Shariah. An Islamic Equity Fund can be established on this basis. The subscribers to the Fund will be treated in Shariah as partners. All the subscription amounts will form a joint pool and will be invested in purchasing the shares of different companies. The profits can accrue either through dividend distributed by the relevant companies or through the appreciation in the prices of the shares. In the first case i.e. where the profits are earned through dividends, a certain proportion of the dividend, which corresponds to the proportion of interest earned by the company, may be given to charity. The contemporary Islamic Funds have termed this process as "purification."

Shariah Compliant Money Market And Income Funds

Income funds provide regular and steady income to investors. Money market schemes generally invest in fixed income securities such as bonds, government securities, bank placements, Islamic income instruments etc. These funds are less volatile compared to equity schemes and are best suited for investors who want to avoid fluctuations in stock market. Investments in these funds are done to seek high liquidity, competitive return and maximum possible preservation of capital.

Types of Risks in Mutual Funds Investments

All investment carry some risk, primarily because of changes occurring in the fundamentals of an economy, a specific company or industry, as well as changes in interest rates, economic conditions and other factors like wars natural disasters etc.

Mutual Funds like other capital market instruments are subject to the same risks as the underlying investments. Some specific risks that can be associated with the Mutual Funds include:

Risk Management

It is important for the fund manager to take proper risk management measures so as to avoid undue risks while investing the Mutual Fund's money. Investment process has to be transparent and adequately documented, with investment decisions taken by an investment committee. Such decisions are to be implemented ethically, without any conflict of interest and with no ambiguity as to the responsibilities of the personnel concerned and must not violate different applicable laws including SECP Laws, Rules and Regulations.

Market Risk

Market risk is the risk that the fair value or the future cash flows of a financial instrument may fluctuate as a result of changes in market prices. The Asset Management Company manages market risk by monitoring exposure on marketable securities by following the internal risk management policies and investment guidelines approved by its Board of Directors and also the regulations laid down by the Securities and Exchange Commission of Pakistan.

Credit Risk

There is a possibility that companies whose TFCs are held by the Fund fail to meet their debt obligations. Similarly there is a probability that an investment in value will go down when the issuer of the security is assigned a negative rating (downgraded) by a reputable credit rating service.

Price Risk

The Fund is exposed to security price risk because of investments held by the Fund and classified on the Statement of Assets and Liabilities as available for sale at fair value through profit or loss. To manage its price risk arising from investments in securities, the Fund diversifies its portfolio within the eligible stocks prescribed in the trust deed. The Fund's constitutive document / NBFC Regulations also place limits on individual different classes of assets/securities which a fund must hold.

Inflation Risk

Inflation is the increase in the level of prices and as such, decreases the real value of money. Therefore, there is a threat that one's assets may decrease significantly in value over longer periods of high inflation. Inflation Risk refers to the risk posed to the value of assets or income by the inflation.

To avoid the pitfalls posed by inflation, portfolio allocation is important. Commodities such as oil, grains, metals etc. are often seen as a hedge against inflation. This is because commodity prices often rise with increased inflation but simultaneously there are certain other risks associated with commodities and inflation;

i) Commodities have no income or earnings stream unlike stocks/equities. As a result, they have no inherent value beyond their market prices, which are dependent on the perceptions of agents in the market.

ii) Stocks play a crucial role, and have inflation cushion in growth in earnings with inflation, when they are highly over-valued, their future returns, however, (and therefore their inflation-fighting power) are likely to be diminished. Bonds on the other hand, tend to fall in price in response to inflation and the risk that inflation will outpace and erode investment returns overtime is a serious concern for money market funds.

iii) In general, it is important to have a well-constructed, diverse portfolio to counter the adverse effects of inflation. When considering inflation risk, it is important to keep long-term effects in mind since inflation tends to have a more significant impact on markets in the long-run.

Default Risk

It is the risk associated with an issuer of a debt instrument that may not have the financial ability to meet regular scheduled payments or is incapable of repaying the debt at maturity.

Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. It is thus the risk resulting from increased interest rates in the market place.

Liquidity Risk

Liquidity risk is the risk that the Fund may not be able to generate sufficient cash resources to settle its obligation in full as they fall due or can only do so on terms that are materially disadvantageous.

The Fund is exposed to cash redemptions, at the option of unit holders. The Fund's approach to managing liquidity is to ensure, as far as possible, that the Fund will always have sufficient liquidity to meet its liabilities when due under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Fund's reputation. The funds therefore try to invest the majority of their assets in investments that are traded in active market and can be readily disposed and are also considered readily realisable.

In short liquidity risk in the context of securities markets is the risk that the market for assets becomes too thin to enable fair and efficient trading to take place. This is the risk that assets cannot be sold or bought as and when required.

Settlement Risk

Settlement risk is the risk that one party will fail to deliver the terms of a contract with another party at the time of settlement. Settlement risk can be the risk associated with default at settlement and any timing differences in settlement between the two parties. This type of risk can lead to principal risk. As such, settlement risk comprises both credit and liquidity risks. The former arises when a counterparty cannot meet an obligation for full value of the obligation on due date and thereafter because it is insolvent.

MCBAH Funds' Mechanics and Fund Manager Report

An appropriate document to understand the fund's Mechanics is to understand the content of the Fund Manager Report issued by Asset Managers every month. Fund Manager Report (FMR) is a document which provides information about all the funds which an Asset Management Company (AMC) manages. It primarily highlights funds' investment objectives, risk profile, structure and features, recent and last few years' performance and allocation of the funds in different avenues and sectors.

The FMR helps the clients and prospective investors to gain understanding of how the particular mutual fund under management is currently managing the asset within the regulatory guidelines on allowable investments limits and expenses. In order to get better insights from the FMR, the reader should know the following terms well

- Fund's Investment Objective
- Fund Type
- Category
- Asset Manager Rating
- Stability Rating (if applicable)
- Risk Profile
- Trustee
- Auditor
- Management Fee
- Front end/ Back end Load
- Minimum Subscription
- Units Type
- Benchmark
- Pricing Mechanism
- Dealing Days
- Cut off timings
- Understanding on different asset classes

In order to help our sales team understand above mentioned terms better we have recorded two detailed videos on the conventional and Shariah compliant Funds offered by MCBAH. It is mandatory to watch both videos for all new inductees.

Note: You may also refer to Glossary of Important terms in addition to the videos.

Voluntary Pension Systems – VPS

The need to introduce Voluntary Pension System

The current social security laws in Pakistan do not require employers to offer mandatory pensions to their employees; therefore, VPS is an obvious reasonable recourse. It is meant for those who are:

- Self-employed;
- Employed on contract basis with Government or private sector;
- Employed with private employers who do not offer any pensions; and
- Any other individuals who want to arrange voluntarily for old age pensions.
- Any person who works in a pensionable job but feels the need for an additional pension

The Voluntary Pension System (VPS) in Pakistan is a self-contributory pension savings scheme open to all adult Pakistanis registered with the tax authorities or having a CNIC, who are usually not covered by other occupational pension schemes. VPS can also be used for a second or supplementary pension. Employers can also contribute in VPS. There are no limits on the maximum annual contributions. Contributions are to be invested in specially set up funds, with flexibility of customized asset allocation through individual accounts.

There are stringent requirements under the SECP regulations for licensing of pension fund managers. The fee structure of the pension fund is kept much lower than those of normal mutual funds. One of the unique features of a VPS is that the individual can diversify savings (contributions) amongst more than one fund manager and can transfer the account from one fund manager to other fund managers without any charge.

The system of tax reliefs on pension schemes is known as the Exempt-Exempt-Taxed (EET) structure. In the EET structure, the tax rebate is on contributions, investment income and gains are accumulated tax-free, while tax is paid at the stage when pension is drawn.

Voluntary Pension System (VPS) is a comprehensive framework for the employed and self-employed individuals under which:

- they voluntarily contribute to a Pension Fund during their working life to provide regular income after retirement;
- thus, they seek to enable themselves to maintain a reasonable standard of living after retirement

Pension Funds

Pension Fund is normally understood to mean a fund established by an employer to facilitate and organize the investment of employees' retirement funds contributed by the employer and employees. The pension fund is a common asset pool meant to generate stable growth over the long term, and provide pensions for employees when they reach the end of their designated working life (also known as superannuation) and commence retirement. Pension funds are commonly run by some sort of financial intermediary for the company and its employees, although some larger corporations operate their pension funds in-house. Pension funds control relatively large amounts of capital and represent the largest institutional investors in many countries.

Relationship between Pension Funds and Voluntary Pension System

The Voluntary Pension System is the overall framework under which the Pension Funds are launched and managed. The Participants to VPS subscribe to a Pension Fund and not to the Voluntary Pension System.

Structure of Voluntary Pension System

The SECP has mandated an Investment and Asset Allocation Policy for the Pension Funds authorized under the Voluntary Pension System Rules, 2005.

The Policy covers both, the Conventional and Shariah Compliant funds and provides detailed guidelines in SECP circular on *Investment and Allocation Policies for Pension Funds authorized under Voluntary Pension System rules, 2005*. The circulars (along with periodic updates) also provides details for investment and categorization of sub-funds, which are;

- ***Equity Funds***
- ***Debt Market Funds***
- ***Money Market Funds***

The Allocation policy mandated by the SECP obliges fund managers to offer at least four (4) allocation schemes. The allocation schemes for **3 Sub Funds** are:

Allocation Schemes	Debt Sub Fund	Equity Sub Fund	Money Market Sub Fund
High Volatility	Min 20%	Min 65%	Nil
Medium Volatility	Min 40%	Min 35%	Min 10%
Low Volatility	Min 60%	Min 10%	Min 15%
Lower Volatility	Min 40%	Nil	Min 40%

(Volatility here means the downwards or upwards change in Principal amount invested owing to change in price of the securities in the portfolio of a sub-fund)

The Allocation policy mandated by the SECP obliges fund managers to offer at least four (4) allocation schemes. The allocation schemes for **4 Sub Funds** are:

Allocation Scheme	Debt Sub Fund	Equity Sub Fund	Money Market Sub Fund	Commodity Sub Funds
High Volatility	Min 20%	Min 40%	Nil	Max 25%
Medium Volatility	Min 40%	Min 20%	Min 10%	Max 15%
Low Volatility	Min 60%	Min 05%	Min 15%	Max 05%
Lower Volatility	Min 40%	Nil	Min 40%	Nil

(Volatility here means the downwards or upwards change in Principal amount invested owing to change in price of the securities in the portfolio of a sub-fund)

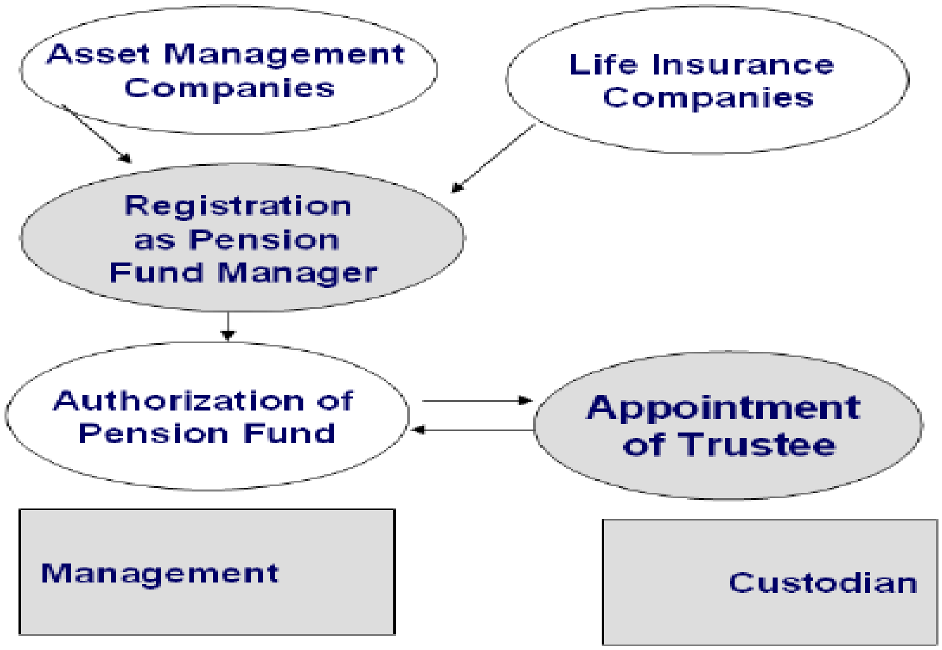
Each sub-fund is also required to announce NAV based prices daily. Front-end load is usually 3% but no load applies on transfers. Funds do not distribute dividends and are exempted from tax. The following are the key features which structure the Voluntary Pension Scheme as discussed above.

Eligibility and Benefits
Eligibility to become a participant to a Pension Fund under VPS

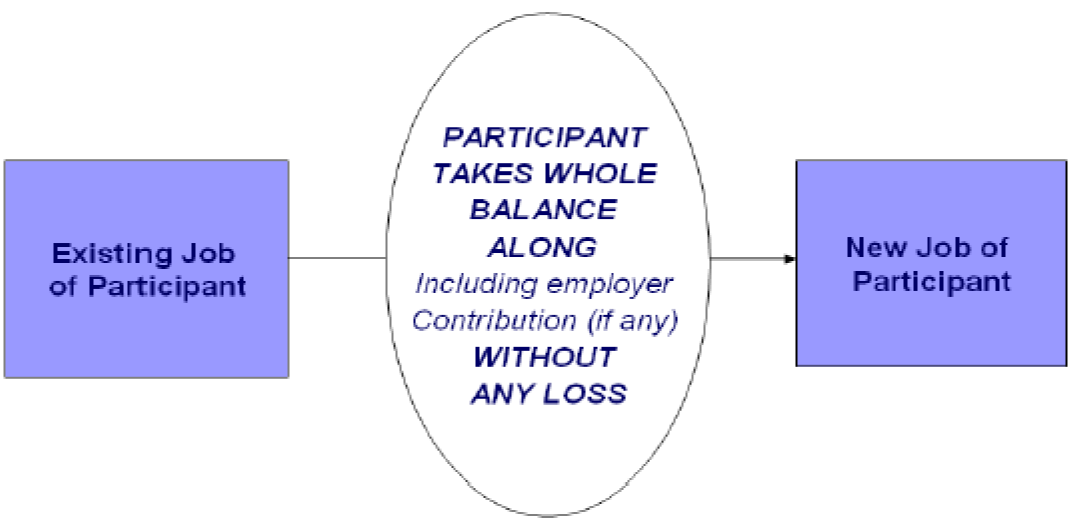
To become a participant in a Pension Fund under VPS, easy eligibility criteria has been set up which is:

- The participant needs to hold a valid National Tax Number (NTN) issued by Federal Board of Revenue (FBR) and Computerized National Identity Card (CNIC) issued by National Database and Registration Authority (NADRA)
- If the Participant is an overseas Pakistani, he/ she needs to hold a valid National Identity Card for Overseas Pakistanis (NICOP) issued by NADRA

VPS framework: Pension Funds, Fund Managers and Trustees
The VPS Rules allow asset management companies and life insurance companies to apply to SECP for registration as Pension Fund Managers. Pension Funds are authorized by the SECP as a unit trust scheme structured under the Trust Act.

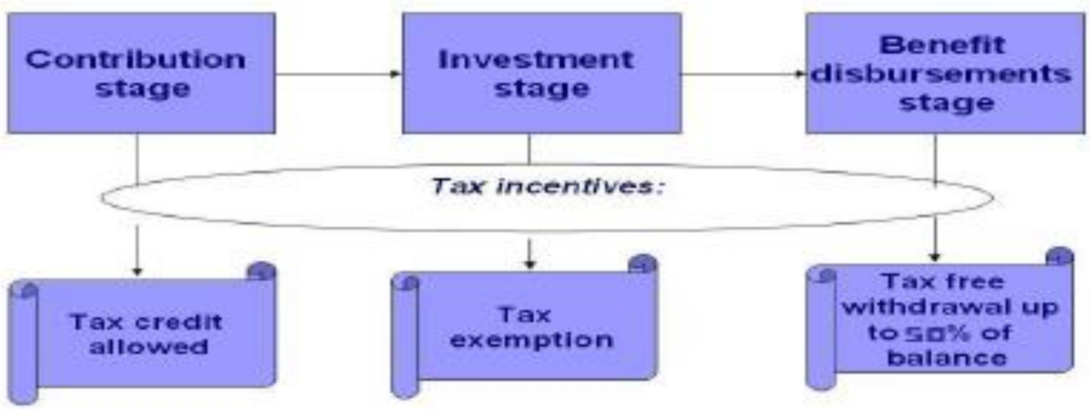


<u>Portability of Individual Pension Account if the Participant switches the job and employer was also contributing</u>



Benefits of subscribing to a Pension Fund under Voluntary Pension System
The following are some of the benefits a participant enjoys if he/she becomes a Participant to a Pension Fund under the VPS:

- VPS rules and guidelines provide detailed guidance on various areas under VPS
- For those in employment, VPS helps in maintaining life style after retirement
- Pension Funds are a good option for those not receiving any employment pensions
- VPS has easy eligibility criteria
- Eligible persons investing under VPS (Participants) have right to save with one or more Pension Fund Manager (PFM).
- Option to choose/ switch allocation policy and Pension Fund Manager
- The account stays with pension fund subscriber even if he/she changes job
- Expertise of Professional Fund Manager and Trustees
- Right to transfer the account to some other manager/s.
- Choice to select a plan within the offerings of each PFM.
- Choice to select retirement age between 60 and 70 years or twenty-five years since the age of first contribution to a pension fund, whichever is earlier
- Early cash withdrawal is possible before retirement subject to applicable tax.
- Tax free Withdrawal is allowed up to 50% of fund on retirement.
- Option for an annuity plan or income draw down plan on retirement.
- Regular provision of account statements and financial statements.



The Pension Funds provide an opportunity for self-employed to build their own pension funds. It also serves as an opportunity for employees not covered by occupational pensions to build their portable pension funds, while providing an occasion for corporate sector to supplement or replace provident funds with matching contributions to VPS for their employees. It also accommodates the Non-Resident Pakistani's (NRP) to build pension funds in Pakistan. In most of the pension funds, the individuals can build professionally managed portfolios, with optimal asset allocation.

Frequently Asked Questions on VPS

What is the Retirement Age in VPS?
The retirement age for the participants shall be any age between sixty and seventy years or twenty-five years since the age of first contribution to a pension fund, whichever is earlier.

Provided that the participant may change his retirement age between sixty and seventy years by giving notice in writing to the Pension Fund Manager.

What are the Benefits available on Retirement date selected in VPS?
At the date of retirement of the participant, where no option is selected by him, all the units of the sub-funds to his credit shall be redeemed at the net asset value notified at close of the day of retirement and the amount due shall be transferred to his individual pension account, in the lower volatility scheme offered by the Pension Fund Manager. The participant shall then have the following options, namely:

a) to withdraw up to fifty per cent or such percentage of the amount from his individual pension account as cash which is permissible under the Income Tax Ordinance, 2001 (XLIX of 2001) and subject to payment of tax as required thereunder;
b) to use the remaining amount to purchase an annuity from a Life Insurance Company of his choice; or
c) to enter into an agreement with the Pension Fund Manager to withdraw from the remaining amount, monthly installments for up to fifteen years following the date of retirement, according to an income payment plan, approved by the Commission. ***MCBAH has now Monthly Income Plan of 10 years.***
d) the transfer of an individual income payment plan account from one Pension Fund Manager to another Pension Fund Manager or from one income payment plan to another income payment plan shall take place as per the discretion of the participant and notice for the change, specifying the name of new Pension Fund Manager and the income payment plan shall be sent by the participant at least seven working days before the effective date of the proposed change.

What options does a participant (investor) have at the expiry of income payment plan?
On retirement, the participant may enter into an agreement of income payment plan with the Pension Fund Manager to withdraw from the remaining amount, monthly installments for up to fifteen years following the date of retirement, according to an income payment plan, approved by the Commission.

At the expiry of the income payment plan, the participant shall have option to use the outstanding balance in his individual pension account to buy an income payment plan for another term or withdraw the amount from his account.

At MCBAH, Investor submit redemption form and withdraw remaining amount without tax after completion of income payment plan tenor (Minimum Ten Year). ***MCBAH has now Monthly Income Plan of 10 years.***

What happens when a participant in VPS (investor in VPS) withdraws amount before retirement?

A participant at any time before retirement shall be entitled to redeem the total or part of the units of the sub-funds to his credit in the individual pension account subject to the conditions laid down in the Income Tax Ordinance, 2001 (XLIX of 2001), from time to time. The withdrawals may be through single or multiple payments. *Currently, the tax on such withdrawals/ redemption is deducted as per last three years' average rate) Withholding tax and tax penalty, if any, applicable to all such withdrawals shall be deducted by the Pension Fund Manager and the same shall be deposited in the Government treasury.*

What happens if the participant (investor in VPS) suffers from disabilities?

If a participant suffers from any of the following disabilities, which render him unable to continue any employment he may, if he so elects, be treated as having reached the retirement age at the date of such disability and all relevant provisions shall apply accordingly, namely :-

a) loss of two or more limbs or loss of a hand and a foot;
b) loss of eyesight;
c) deafness in both ears;
d) severe facial disfigurement;
e) loss of speech;
f) paraplegia or hemiplegia;
g) lunacy;
h) advance case of incurable disease; or
i) wounds, injuries or any other diseases, etc, resulting in a disability due to which the participant is unable to continue any work.

At MCBAH, In case of retirement due to disability of the Participant, a doctor's assessment certificate confirming the disability is now required instead of an assessment certificate from the medical board approved by the Commission

What happens with a participant's account (VPS investor's account) in case of his/her death?

1. In case of death of a participant before the retirement age, all units of the sub-funds to his credit shall be redeemed at the net asset value notified at close of the day of intimation of death and the amount due shall be transferred to his individual pension account in the lower volatility scheme offered by the Pension Fund Manager
2. Changes The total amount in the individual pension account of the deceased participant shall be divided among the nominated survivors according to the percentages specified in the *Succession Certificate instead of Nomination Deed* and each of the nominated survivor shall then have the following options, namely

    a) withdraw his share of the amount subject to the conditions laid down in the Income Tax Ordinance 2001 (XLIX of 2001);
    b) transfer his share of the amount into his existing or new individual pension account or income payment plan account to be opened with a Pension Fund manager, according to these rules;
    c) use his share of the amount to purchase an annuity on his life from a Life Insurance Company, only if the age of the survivor is fifty-five years or more; or
    d) use his share of the amount to purchase a deferred annuity on his life from a Life Insurance Company to commence at age fifty-five years or later.

Is there any limit on reallocation of schemes in VPS and what is freezing of portfolio?
There is no limit for change of Allocation Scheme and participant can change the allocation scheme as and when required.
Further, another option is introduced whereby the participant may freeze the current portfolio and for future contributions, select a different allocation scheme. This freezing of Portfolio can be done twice till retirement which would mean a maximum of three allocations simultaneously.

Is there any insurance coverage in MCBAH VPS Products?
Life Insurance coverage is available in Pakistan Pension Fund. As per policy both natural and accidental death are covered. The sum assured per investor is average of last 12 months' contribution x (multiply by) 12 (cover multiple) on rolling basis subject to maximum of Rs. 5,000,000. The premium charged is 0.629 percent.

Important Documents which should be studied on VPS

- ***VPS Rules 2005 (updated)***
- ***Circular No. 12 of 2021 (Investment and Allocation Policies for Pension)***

Summary of Tax Related Information in Case Of Mutual Funds & Voluntary Pension Scheme

The returns which Investors earn on their investment in mutual funds can be bifurcated in two main stream of income:

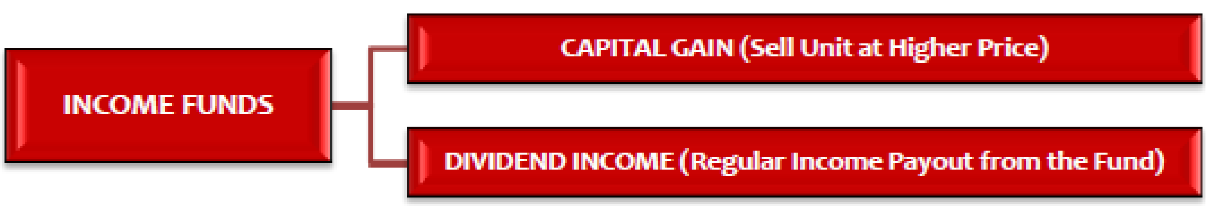
1. **Capital Gain**: Increase in the value of the unit with time is referred to as “Capital Gain”.

Example: Mr. Ali bought a unit of AMC’s Savings Fund for Rs.50 on 1st January 2021. Next day, the unit price increased to Rs. 60. Thus, the Rs.10 profit is called Capital Gain.

2. **Dividend**: A sum of money paid regularly (typically annually, semi-annually, quarterly, monthly) by the fund to its investors out of its profits is called “Dividend”.

*Example: Mr. Ali had invested Rs.50000 at Rs.5 per unit. At year end, the company had declared a dividend of Rs.1 per unit. Hence, Ali got Rs.10,000 (10000*1) as Dividend income.*

The sum of Capital Gain (both realized & unrealized) and Dividend income is the total return the investor gets by investing in a mutual funds.



As per applicable laws, tax is applicable on both Dividend and Capital Gain. As both are two separate forms of income for the investor hence, they are treated differently for tax purposes. Capital Gain Tax is applicable on Capital Gains and Tax on dividend is applicable on Dividend.

Understanding how taxes work in Pakistan (Difference in Withholding Tax & Final Tax)

In Pakistan, taxes are applicable on different sources of income as defined in the income tax ordinance. On income, taxes are deducted or are paid in two forms:

- **Withholding Tax** is a deduction of tax (income tax) at source by the payer of the profit as required by the government. The tax is thus withheld or deducted from the profit before it is paid to the recipient. The current tax law requires AMC's to withhold taxes on profits before paying it to its investors as per applicable laws.
- **Final Tax or Tax Chargeable:** Final Tax means the final tax payable by the investor to FBR. The tax remaining amount left out after deduction of withholding tax that the investor is required to pay at the time of Tax Filing.

WITHHOLDING TAX RATE APPLIED ON DIVIDEND PAYMENT BY MUTUAL FUNDS		
DIVIDEND RECEIVED BY	**STOCK FUND**	**OTHER THAN STOCK FUND**
All Categories	ATL	ATL
	15%	15%
WITHHOLDING TAX RATE APPLIED ON CAPITAL GAIN FROM DISPOSAL OF SECURITIES		
CGT CHARGED TO	**STOCK FUND***	**OTHER THAN STOCK FUND**
	ATL	ATL
Individual or AOP	10%-12.5%	10%
Company	10%-12.5%	25%

**Assuming the investor is in Active Tax payer list and is invested in stock fund, If Dividend receipts of the fund is less than Capital gain of the fund, the rate is 12.5%, if the case is reverse the rate is 10%.*

Section 37-A Capital gain on disposal of securities and loss carry forward

Sub section (5) Notwithstanding anything contained in this Ordinance, where a person sustains a loss on disposal of securities in a tax year, the loss shall be set off only against the gain of the person from any other securities chargeable to tax under this section and no loss shall be carried forward to the subsequent tax year 1.

[Provided that so much of the loss sustained on disposal of securities in tax year 2019 and onwards that has not been set off against the gain of the person from disposal of securities chargeable to tax under this section shall be carried forward to the following tax year and set off only against the gain of the person from disposal of securities chargeable to tax under this section, but no such loss shall be carried forward to more than three tax years immediately succeeding the tax year for which the loss was first computed.

NBFC Regulations (63) Amount distributable to shareholders..- An Asset Management Company on behalf of a Collective Investment Scheme shall, for every accounting year, distribute by way of dividend to the unit holders, certificate holders or shareholders, as the case may be, not less than ninety per cent of the accounting income of the Collective Investment Scheme received or derived from sources other than 188[ ] capital gains as reduced by such expenses as are chargeable to a Collective Investment Scheme under these Regulations.

Tax Credit In Case Of Investments In Mutual Funds

Section 62. of Income Tax Ordinance 2001 - Tax credit for investment in shares and insurance

(1) A resident person other than a company shall be entitled to a tax credit for a tax year either:

(i) In respect of the cost of acquiring in the year new shares offered to the public by a public company listed on a stock exchange in Pakistan, provided the resident person is the original allottee of the shares or the shares are acquired from the Privatization Commission of Pakistan;

OR

(ii) In respect of any life insurance premium paid on a policy to a life insurance company registered by the Securities and Exchange Commission of Pakistan under the Insurance Ordinance, 2000 (XXXIX of 2000), provided the resident person is deriving income chargeable to tax under the head “salary” or “income from business”.

(2) The amount of a person’s tax credit allowed under sub-section (1) for a tax year shall be computed according to the following formula, namely:

FORMULA TO COMPUTE TAX CREDIT: C X B / A

Where

A is the person’s taxable income for the tax year; and

B is the amount of tax assessed to the person for the tax year before allowance of any tax credit:

C is the lesser of

(a) *the total cost of acquiring the shares, or Sukuks the total contribution or premium paid by the person referred to in sub-section (1) in the year;*

(b) *twenty percent of the person’s taxable income for the year; or*

(c) *two million rupees.*

(3) Where a person has been allowed a tax credit under sub-section (1) in a tax year in respect of the purchase of a share and the person has made a disposal of the share within twenty-four months of the date of acquisition, the amount of tax payable by the person for the tax year in which the shares were disposed of shall be increased by the amount of the credit allowed.

IN CASE OF INVESTMENTS IN VOLUNTARY PENSION SCHEME

Section 63. Income Tax Ordinance 2001 - Contribution to an Approved Pension Fund

(1) An eligible person as defined in sub-section (19A) of section 2 deriving income chargeable to tax under the head "Salary" or the head "Income from Business" shall be entitled to a tax credit for a tax year in respect of any contribution or premium paid in the year by the person in approved pension fund under the Voluntary Pension System Rules, 2005.

(2) The amount of a person's tax credit allowed under sub - section (1) for a tax year shall be computed according to the following formula, namely

FORMULA TO COMPUTE TAX CREDIT: C X B / A

Where

A *is the person's taxable income for the tax year; and*

B *is the amount of tax assessed to the person for the tax year, before allowance of any tax credit*

C *is the lesser of*

(i) the total contribution or premium referred to in sub-section (1) paid by the person in the year;

OR

(ii) twenty percent of the eligible person's taxable income for the relevant tax year;

(3) The transfer by the members of approved employment pension or annuity scheme or approved occupational saving scheme of their existing balance to their individual pension accounts maintained with one or more pension fund managers shall not qualify for tax credit under this section.

(4) On retirement the investor can withdraw 50% of the amount tax free whereas remaining (or entire balance) can be invested in income payment plan.

(5) The investors who withdraw the money before retirement from individual pension account would be subject to tax rate calculated as **"Average tax of income in last three tax years which is adjustable".**

Tax on Withdrawal from VPS and Related Exemptions as per Income Tax Ordinance 2001

Section 23 A the accumulated balance up to [50]% received from the voluntary pension system offered by a pension fund manager under the Voluntary Pension System Rules, 2005 at the time of eligible person's-

a) retirement; or
b) disability rendering him unable to work; or
c) death by his nominated survivors1[:]

Provided that, excluding the cases mentioned in sub-clauses (b) and (c), in case of withdrawal before retirement age or withdrawal at the time of or after retirement age in excess of fifty percent of the accumulated balance, tax shall be charged at the rate specified in **sub-section (6) of section 12** and the pension fund manager shall at the time of making payment deduct tax at the said rate.]

According to Section 12 and Sub section 6, *the tax rate applicable on the withdrawal from VPS to be computed as follows*

(A / B) * 100

A = *the total tax paid or payable by the employee on the employee's total taxable income for the three preceding tax years; and*

B = *the employee's total taxable income for the three preceding tax years.*

Section 23 B The amounts received as monthly installment from an income payment plan invested out of the accumulated balance of an individual pension accounts with a pension fund manager or an approved annuity plan or another individual pension account of eligible person or the survivors pension account maintained with any other pension fund manager as specified in the Voluntary Pension System Rules 2005 shall be exempt from tax provided accumulated balance is invested for a period of ten years:

Section 23 C Any withdrawal of accumulated balance from approved pension fund that represent the transfer of balance of approved provident fund to the said approved pension fund under the Voluntary Pension System Rules , 2005.]

Tax Credit Calculations on Mutual Funds and VPS (for Salaried Individuals)

Assumed Salary per month (Taxable Income)	Applicable Tax rate	Annual Tax Payable	Investment required for tax Credit		Tax Bachat		Total Tax Bachat (Tax Credit)
			Mutual Funds	VPS	Mutual Fund (as per sec 62)	VPS (as per sec 63)	
75,000	1.67%	15,000	180,000	180,000	3,000	3,000	6,000
100,000	2.50%	30,000	240,000	240,000	6,000	6,000	12,000
200,000	7.50%	180,000	480,000	480,000	36,000	36,000	72,000
250,000	9.42%	282,500	600,000	600,000	56,500	56,500	113,000
300,000	10.83%	390,000	720,000	720,000	78,000	78,000	156,000
400,000	13.13%	630,000	960,000	960,000	126,000	126,000	252,000
500,000	14.92%	895,000	1,200,000	1,200,000	179,000	179,000	358,000
600,000	16.18%	1,165,000	1,440,000	1,440,000	233,000	233,000	466,000
750,000	17.72%	1,595,000	1,800,000	1,800,000	319,000	319,000	638,000
1,000,000	19.54%	2,345,000	2,000,000	2,400,000	390,833	469,000	859,833
1,250,000	21.13%	3,170,000	2,000,000	3,000,000	422,667	634,000	1,056,667
1,500,000	22.19%	3,995,000	2,000,000	3,600,000	443,889	799,000	1,242,889
1,750,000	22.95%	4,820,000	2,000,000	4,200,000	459,048	964,000	1,423,048
2,000,000	23.52%	5,645,000	2,000,000	4,800,000	470,417	1,129,000	1,599,417
2,250,000	23.96%	6,470,000	2,000,000	5,400,000	479,259	1,294,000	1,773,259
2,500,000	24.32%	7,295,000	2,000,000	6,000,000	486,333	1,459,000	1,945,333
3,000,000	25.26%	9,095,000	2,000,000	7,200,000	505,278	1,819,000	2,324,278
3,500,000	25.94%	10,895,000	2,000,000	8,400,000	518,810	2,179,000	2,697,810
4,000,000	26.45%	12,695,000	2,000,000	9,600,000	528,958	2,539,000	3,067,958
4,500,000	27.03%	14,595,000	2,000,000	10,800,000	540,556	2,919,000	3,459,556
5,000,000	27.58%	16,545,000	2,000,000	12,000,000	551,500	3,309,000	3,860,500
5,500,000	28.02%	18,495,000	2,000,000	13,200,000	560,455	3,699,000	4,259,455
6,000,000	28.40%	20,445,000	2,000,000	14,400,000	567,917	4,089,000	4,656,917
6,500,000	28.81%	22,470,000	2,000,000	15,600,000	576,154	4,494,000	5,070,154
7,000,000	29.25%	24,570,000	2,000,000	16,800,000	585,000	4,914,000	5,499,000

NAV Per Unit, Offer Price Per Unit and Front End Load

Relationship between NAV, Front End Load and Offer Price	
Key points to remember	**Illustrations**
NAV Per unit (Rs) + Front End Load (Rs) = Offer Price (Rs.)	
If NAV per unit is Rs. 115 and Front Load is Rs. 2, the amount of Front end load per unit will be calculated as	***Rs. 115 + Rs. 2 = Rs. 117 per unit***
Front End Load is charged as a percentage of NAV per unit	***3% of NAV per unit***
If NAV per unit is Rs. 113 and Front Load is 3%, The amount of Front end load per unit will be calculated as	***113 x 3% = Rs. 3.39 (therefore Offer price = 113 + 3.39 = Rs. 116.39 per unit***
Total Number of Units issued = $\frac{\text{Investment amount}}{\text{Offer Price per unit}}$ *If investment amount is Rs. 1,800,000*	***Units issued = $\frac{1,800,000}{116.39}$ = Rs. 15,465.24***
Total amount of load on all units purchased can be calculated as (Total Units x Load amount per unit)	***Units 16,500 x Load per unit 3.39 = Rs. 55,935 (total load)***
If total units issued are 16,500 and load per unit is Rs. 3.39, calculate Front End Load charged per unit	
How to calculate Offer Price per unit if NAV per unit and Front End Load % is given	
Offer price = $\frac{\text{NAV}}{100}$ X (100 + FE LOAD without % sign)	***$\frac{15}{100}$ x (100 + 3) = Rs. 15.45 per unit***
*Example: NAV per unit = Rs. 15 and Front end load = 3%, Calculate **Offer Price** per unit*	
How to calculate NAV per unit if Offer per unit and Front End Load % is given	
NAV per unit = $\frac{\text{Offer Price}}{(100 + \text{FE LOAD without \% sign})}$ X 100	***$\frac{12}{(100+2)}$ x 100 = Rs. 11.7647 per unit***
*Example: Offer per unit = Rs. 12 and Front end load = 2%, Calculate **NAV per** unit*	

Backend Load:

Backend load is also known as Deferred Sales Charge, this is a fee paid when units are sold. This fee typically goes to the agent who sells the fund's units. The amount of this type of load can be straight forward like front end load or may depend on how long the investor holds his or her units and typically decreases to zero if the investor holds his/her units for long enough a period.

This reducing backend load is a bit more complicated. In such a fund investor pays the back-end load if they are selling the units of the fund within a certain time frame. A typical example is a 6% back-end load that decreases to 0% in the seventh year. The load is 6% if units are sold by the investor in the first year of purchase, 5% in the second year and so on. If investors don't sell the mutual fund until the seventh year, then he/she doesn't have to pay the back-end load at all.

This is a percentage deducted from the Net Asset Value (NAV) when redeeming Units.

Example:

Suppose the total investment amount in a fund is Rs.10,000 while there was no front-end load paid at the time of purchase of fund. The fund generates a total return over one year of 8% while the back-end load is applied as 2%.

The value of back-end load will be calculated as:

Back-end load = NAV x Back-end load rate

Whereas NAV = investment (1 + return rate)

NAV of Fund = Rs. 10,000 (1 + 0 .08) = Rs. 10,800

So

*Back-end load = 10,800 *0.02*

Back-end load = Rs.216

Fund Return Calculation Methodology

It is important to understand how the returns of the funds are calculated. I urge you to practice these simple steps so that you can apply it whenever you are supposed to. Before you start learning calculation you must grasp the following terms.

NET ASSET VALUE PER UNIT (NAV)

It is the total value of the fund assets less liabilities, divided by the total number of units outstanding. NAV is calculated on a daily basis based on the closing market prices of the securities in the fund's portfolio.

DIVIDEND

It is the distribution of a portion of the funds earning to all the unit holders.

CUM-DIVIDEND NAV

It is the NAV at which the buyer of the fund's units is entitled to receive dividend. In other words, it is the NAV right before the announcement of dividend.

EX-DIVIDEND NAV

It is the NAV after the buyer of the fund's units have been awarded the dividend. In other words, it is the NAV right after the distribution of dividend. After the ex-date has been declared, the NAV will usually drop in price by the amount of the expected dividend.

STARTING NAV

It is the NAV at the beginning of the period of return calculation.

CURRENT NAV

It is the last NAV of the period till which the return needs to be calculated.

EXAMPLE

You are trying to calculate monthly return, for instance the month of September. You can term the NAV of different dates as follows

TERM	DATE	RS.	EXPLANATION
Starting NAV	31 Aug	104	
Ending NAV	30-Sep	108	
Dividend announced on	24-Sep	2	
CUM NAV	23-Sep	107	It is NAV right before Rs. 2 were distributed i.e. a day before dividend is distributed.
EX NAV *(CUM NAV MINUS DIVIDEND PER UNIT)*	24-Sep	105	It is NAV right after Rs. 2 is deducted from CUM NAV (107-2= 105)

TYPES OF RETURN

There are two types of return named as **"Absolute" and "Annualized"**. So let us have a look at the formulae step by step. The explanation has been segregated as follows

1. Absolute return assuming no dividend is distributed during the period
2. Absolute return when dividend is distributed during the period
3. Annualized return assuming no dividend is distributed during the period
4. Annualized return when dividend is distributed during the period

ABSOLUTE RETURN

Absolute return is used by the following category of funds:

- ✓ Equity
- ✓ Asset Allocation
- ✓ Balanced
- ✓ Capital Protected
- ✓ Funds of Funds
- ✓ Index Tracker
- ✓ Islamic Asset Allocation
- ✓ Islamic Balanced
- ✓ Islamic Equity
- ✓ Pension - Equity

FORMULA - ABSOLUTE RETURN ASSUMING NO DIVIDEND IS DISTRIBUTED DURING THE PERIOD

$$\text{Absolute Return} = \frac{(\text{Current NAV} - \text{Starting NAV})}{(\text{Starting NAV})} \times 100$$

FORMULA - ABSOLUTE RETURN ASSUMING DIVIDEND IS DISTRIBUTED DURING THE PERIOD

In case there are dividends announced during the period of return calculation, you need to adjust the Starting NAV in the above mentioned return formula. To adjust the starting NAV, you need to find the "**FACTOR"** first. Here are the easy steps you need to follow in such scenario.

Step 1 : Calculate the Factor

Factor = Factor1 x Factor2 x Factor3 x Factor $_n$

*(A factor is calculated for every dividend distributed, if there is only one dividend distribution only factor 1 is calculated with following formula, hence no need to go to Factor 2 or 3. But if the dividend is announced more than once during the period, you will calculate all factors one by one and then multiply all factors with each other***)**

Where,

Factor 1 = Cum-dividend1 NAV **/** Ex-dividend1 NAV

Factor 2 = Cum-dividend2 NAV **/**Ex-dividend2 NAV

Factor 3 = Cum-dividend3 NAV **/**Ex-dividend3 NAV

Factor $_{\mathbf{n}}$ = Cum-dividend $_{\mathbf{n}}$ NAV **/** Ex-dividend $_{\mathbf{n}}$ NAV

Step 2 : Calculate the Adjusted Starting NAV

Once you have calculated the factor, use following formula now to calculate **Adjusted Starting NAV**

$$\text{Adjusted Starting NAV} = \frac{\text{Starting NAV}}{\text{Factor}}$$

Step 3: Calculate the return (final step)

$$\text{Absolute Return} = \frac{(\text{Current NAV} - \textbf{Adjusted}\ \text{Starting NAV})}{(\textbf{Adjusted}\ \text{Starting NAV})} \times 100$$

CASE 1

Period :	July to December (6 months)
Fund Name:	XYZ Stock Fund
Category	Equity
Starting NAV – June 30, 2010	Rs. 10.0134
Current (ending) NAV – December 31, 2010	Rs. 12.3641
Dividends Announced	None

Absolute Return $\frac{(12.3641 - 10.0134)}{10.0134} \times 100 = 23.48\%$

- ***No factor was calculated as no dividends were announced, therefore the starting NAV wasn't adjusted.***
- ***Returns from Equity funds are not annualized***

CASE 2

Period :	July to December (6 months)
Fund Name:	XYZ Asset Allocation Fund
Category	Asset allocation
Starting NAV – June 30, 2010	Rs. 73.6389
Current (ending) NAV – December 31, 2010	Rs. 84.0
Dividends Announced on Nov 16, 2010	Rs. 05
NAV on Nov 16, 2010	Rs. 82

Solution in 3 steps as dividend is distributed during the period

Step 1 : Factor calculation $= \frac{\text{CUM NAV}}{\text{EX NAV}} = \frac{82}{77} = 1.0649$

Step 2 : Adjusted starting NAV $= \frac{\text{Starting NAV}}{\text{Factor}} = \frac{73.6389}{1.0649} = 69.15$

Step 3: Absolute Return $= \frac{(\text{Current NAV} - \textbf{Adjusted}\ \text{Starting NAV}}{(\textbf{Adjusted}\ \text{Starting NAV})}$

$= \frac{(84.0 - 69.15)}{69.15} \times 100 = 21.47\ \%$

ANNUALIZED RETURN

Annualized return is used by the following category of funds:

- ✓ Aggressive Fixed Income
- ✓ Income
- ✓ Islamic Aggressive Fixed Income
- ✓ Islamic Income
- ✓ Islamic Money Market
- ✓ Money Market
- ✓ Pension – Debt
- ✓ Pension – Money Market

ANNUALIZED RETURN ASSUMING NO DIVIDEND IS DISTRIBUTED DURING THE PERIOD

In case of above mentioned funds you must calculate annualized returns. Annualized return calculation is exactly the same calculation we just covered in absolute return case **with only one additional step.**

Step 1 : Calculate absolute return as you learned above

Step 2 : Multiply with 365 and divide by the number of days since starting NAV of the period

CASE 3

Period :	July to December (6 months)
Fund Name:	Alhamra Islamic Income Fund
Category	Income
Starting NAV – June 30, 2014	Rs. 96.63
Current (ending) NAV – December 31, 2014	Rs. 104.16
Dividends Announced	None

Absolute Return $\frac{(104.16 - 96.63)}{96.63} \times 100 = 7.7926\%$

Annualized Return $\frac{7.7926 \times 365}{184} = 15.4582\%$

No. of days (From 1st July 2010 to 31st December 2014)

CASE 4

Period :	July to December (6 months)
Fund Name:	ABC Cash Management Fund
Category	Money Market
Starting NAV – June 30, 2015	Rs. 513.60
Current (ending) NAV – December 31, 2015	Rs.530
Dividends Announced	On August 16 @ Rs. 10 and October 13 @ 11
CUM NAV on August 15, 2015	Rs. 525
CUM NAV on October 12, 2015	Rs. 535

IMPORTANT NOTE

Since from June to December dividend is distributed twice, you must calculate factor 1 and factor 2 and multiply both factor with each other i.e. Factor 1 x Factor 2. Every time you calculate the factor you must need CUM NAV and DIVIDEND PER UNIT WHICH IS KNOWN on the date of distribution.

Remember it is the easiest way to calculate CUM NAV, EX NAV and THE DIVIDEND PER UNIT, if you remember the concept that

CUM NAV = EX NAV + DIVIDEND PER UNIT (if 2 variables are known, the remaining one can be calculated)

Solution in 6 steps as dividend is distributed twice during the period

Step 1 : Factor 1 calculation $= \frac{\text{CUM NAV}}{\text{EX NAV}} = \frac{525}{510} = 1.0294$

Step 2 : Factor 2 calculation $= \frac{535}{524} = 1.021$

Step 3 : Multiply Factor 1 & Factor 2 $= 1.0294 \times 1.021 = 1.0510$

Step 4 : Adjusted starting NAV $= \frac{\text{Starting NAV}}{\text{Factor}} = \frac{513.60}{1.0510} = 488.677$

Step 5 Absolute Return $= \left(\frac{\text{Current NAV} - \text{Adjusted Starting NAV}}{\text{Adjusted Starting NAV}}\right)$

$= \frac{(530 - 488.677)}{488.677} \times 100 = 8.456\%$

Step 6 Annualized Return $= \frac{\text{Absolute return} \times 365}{\text{No. of days since Starting NAV of the period}}$

$= \frac{8.456\ \% \times 365}{184} = 16.77\%$

No. of days (From 1st July 2015 to 31st December 2015)

NOTE

- *So 16.77 % is the return of the six month from July to Dec but presented as annualized.*
- *If the period is 30 days, you must divide the absolute return by 30 days and multiply by 365 to annualized result.*
- *If the period is 90 days, you must divide the absolute return by 90 days and multiply by 365 to annualized result.*

Policies and Internal Processes

Policies and Internal Processes

To help the sales team perform their duties and responsibilities well, it is important that the team understands relevant policies and internal processes well. Following is the list of important policies and internal processes:

Policies

- Investor Suitability Assessment | Policy and Procedures
- Anti-Money laundering – Relevant Policies and Guidelines
- Employees Trading Policy

Internal Processes

- Effective use of I-Save
- Investor Services Department (ISD) - Distribution Support Unit (DSU) Functions
- Quality Assurance Functions and
- Call Center Unit

Investor Suitability Assessment Policy and Procedure

Policy Objective

The objective of Investor Suitability Assessment is to ensure that Collective Investment Scheme ("CIS")/ Administrative Plan ("Plan") managed by MCB-Arif Habib Savings and Investments Limited (hereinafter referred to as the "MCB-AH" or "Company") is suitable for the potential investor of MCB-AH based on his/her risk profile

MCB-AH recognizes the fact that the main driver of the risk profile is need of the customer, therefore the customer may have multiple risk profiles for multiple needs. Long-term need of the customer such as savings for child's education may have high risk score, whereas short-term need of the same customer such as savings for a car after six months may have a low risk score. To accommodate need based risk profiling, MCB-AH has kept the risk profiling on each account of the customer with the understanding that the customer will open multiple accounts for multiple needs. Suitability

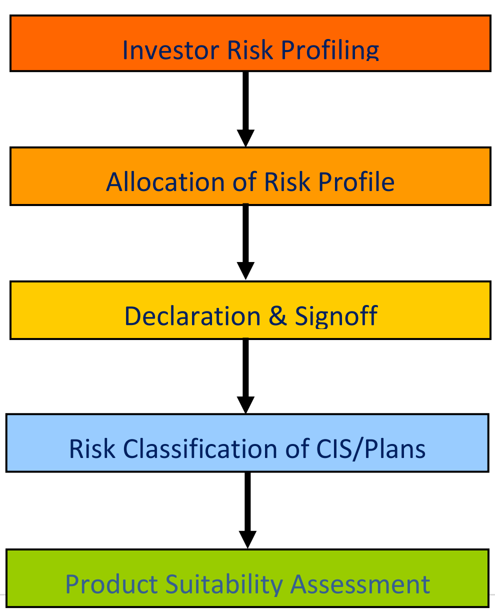
Assessment of the customer will be conducted at the time of investment based on the results of Risk Profiling Questionnaire filled by the customer either at the time of account opening or subsequent to account opening, as the case may be.

Scope of the Policy

The scope of this Policy is limited to the Individual/Retail Customers transacting through physical application forms. Online transactions of the Individual/ Retail Customers are excluded from the scope of this Policy in accordance with the requirements of Ethical Selling Guidelines issued by Mutual Funds Association of Pakistan ("MUFAP") with the consent of SECP. However, Individual/ Retail Customers will be shown their risk profile and CIS risk profile at the time of online transactions so that they can take informed decision.

Investor Suitability Assessment Procedures

The following steps will be followed for all individual investors in order to conduct suitability assessment of CIS/Plans.



The requirements for each of these step is detailed below

Investor Risk Profiling

The below mentioned Risk Profiling Questionnaire (RPQ) will be a part of the physical Account Opening Forms as well as made available for digital accounts opened or registered through iSave, enabling MCB-AH to understand Investor's investment objectives and risk/return expectation that can translate into an asset allocation suitable to respective investor's investment needs

1	**Your current age**	**Score**
	More than 60 years	1
	46 - 60 years	2
	30 - 45 years	3
	Less than 30 years	4

2	**Your current employment status**	
	Retired (Life savings/Pension)	1
	House Wife/Student/Dependent	2
	Salaried Employee	3
	Own Business	4

3	**For how long do you want to keep your investment before cashing out**	
	Less than 6 Months	1
	7 months to a year	2
	Between 3 to 5 years	3
	Over 5 years	4

4	**What portion of your current investments (if any) are invested in the Stock Market ?**	
	76 - 100 %	1
	51 - 75 %	2
	21 - 50 %	3
	0 - 20 %	4

5	**What are you investing for?**	
	Regular Income - e.g. kitchen expenses	2
	Cash Management - e.g. fulfilling short-term goals	4
	Capital growth - e.g. education/marriage	6

	Long term savings - e.g. retirement planning	8

6	**How would you react if your portfolio value falls below what you initially invested?**	
	Encash my investment immediately	1
	Transfer my investment to a more secure fund	2
	I will hold my investment and wait for better returns	3
	Invest additional amount to reduce my average cost	4

Allocation of Risk Profile

Depending on the response submitted by investors against each question, Total Risk Profile Score is calculated and a risk profile is assigned to the investor as per the table below:

INVESTOR PROFILE	SCORE FROM	SCORE TO
Very Low	1	10
Low	11	14
Medium/ Moderate	15	21
High	22	28

Declaration & Signoff

Customers will be required to sign off the below mentioned declaration at the time of completing the Risk Profiling Questionnaire:

"I understand that this Risk Profiling Questionnaire ("RPQ") will help me in assessing my risk appetite based on my need and the information provided by me. The Company and its representative have helped me in understanding the implication of scores derived from RPQ on my scheme/plan selection. I am aware that my different savings needs may have different risk appetite which may change over time depending on my personal situation and objectives. I also understand that this RPQ does not constitute, in any manner, advice given by the Company or its representative. I also understand that my current and future investment, conversion and transfer transactions may not match with the risk score derived from this RPQ. I will not hold the Company or its representative liable or responsible for these transactions in any manner."

Risk Classification of CIS/Plans

In accordance with the requirements mentioned in SECP's Circular No. 02 of 2020 as amended by SECP's Circular No. 32 of 2020, all CIS/ Plans under the management of MCB-AH are being classified as per the following risk profiles and will be placed on Account Opening Form, Investment Form, Conversion Form, Fund Manager's Reports and Offering Documents.

MCB-ARIF HABIB SAVINGS AND INVESTMENTS LIMITED
RISK PROFILE OF COLLECTIVE INVESTMENT SCHEMES/ADMINISTRATIVE PLANS

Name of Collective Investment Scheme	Category of Collective Investment Scheme	Risk Profile	Risk of Principal Erosion	Investor Eligible Score
CONVENTIONAL				
Pakistan Cash Management Fund	Money Market	Very Low	Principal at very low risk	=>0
MCB Cash Management Optimizer	Money Market	Low	Principal at low risk	=>11
MCB-DCF Income Fund	Income	Medium	Principal at medium risk	=>15
Pakistan Income Fund	Income	Medium	Principal at medium risk	=>15
MCB Pakistan Sovereign Fund	Income	Medium	Principal at medium risk	=>15
Pakistan Income Enhancement Fund	Aggressive Fixed Income	Medium	Principal at medium risk	=>15
MCB Pakistan Asset Allocation Fund	Asset Allocation	High	Principal at high risk	=>22
Pakistan Capital Market Fund	Balanced	High	Principal at high risk	=>22
MCB Pakistan Stock Market Fund	Equity	High	Principal at high risk	=>22

Name of Collective Investment Scheme	Category of Collective Investment Scheme	Risk Profile	Risk of Principal Erosion	Investor Eligible Score
SHARIAH COMPLIANT				
Alhamra Islamic Money Market Fund	Shariah Compliant Money Market	Low	Principal at low risk	=>11
Alhamra Islamic Income Fund	Shariah Compliant Islamic Income	Medium	Principal at medium risk	=>15
Alhamra Daily Dividend Fund	Shariah Compliant Islamic Income	Medium	Principal at medium risk	=>15
Alhamra Smart Portfolio	Shariah Compliant Islamic Fund of Fund	Medium	Principal at medium risk	=>15
Alhamra Islamic Asset Allocation Fund	Shariah Compliant Islamic Asset Allocation	High	Principal at high risk	=>22
Alhamra Islamic Stock Fund	Shariah Compliant Islamic Equity	High	Principal at high risk	=>22

Name of Administrative Plan	Risk Profile	Risk of Principal Erosion	Investor Eligible Score
CONVENTIONAL			
Gulluck Plan (MCB-PSM)	High	Principal at high risk	=>22
MCB-PSM Savings Plan	High	Principal at high risk	=>22
Balanced Savings Plan	High	Principal at high risk	=>22
Pension Builder Plan	High	Principal at high risk	=>22
Smart Trader	High	Principal at high risk	=>22
Balanced Portfolio	High	Principal at high risk	=>22
Dynamic Income Provider	High	Principal at high risk	=>22
PIF Savings Plan	Medium	Principal at medium risk	=>15
Smart Portfolio	Medium	Principal at medium risk	=>15
Monthly Income Plan	Medium	Principal at medium risk	=>15
SHARIAH COMPLIANT			
Gulluck Plan (ALHISF)	High	Principal at high risk	=>22
Hajj Saver Account (ALHAA)	High	Principal at high risk	=>22

Product Suitability Assessment

1. Product Suitability Assessment will be primary responsibility of the Sales Person, who will perform the following steps at the time of accepting investment/conversion-in transactions from the customer:

   (a) Sales Person shall explain RPQ to the new customer and ensure that declaration on RPQ is duly read and signed by the new customer prior to making an investment.

   (b) Sales Person shall also explain the risk of the category of CIS being invested/ converted in to the customer and get a separate signature of the customer on Risk Disclosure Statement stating that the Sales Person has explained the risk of the CIS/ category.

   (c) Sales Person shall also sign an undertaking that:

   - the risk of the CIS has been adequately disclosed to the customer and he/ she has clearly understood the same; and
   - he/she has not guaranteed any returns/ number or percentage to the customer.

   (d) Undertaking by Sales Person will be countersigned by his/her immediate supervisor and will be attached with the Investment/ Conversion Form.

2. **Risk Based Approach for conducting transaction intimation/confirmation:**
   Prior to processing of Transaction, a confirmation will be obtained from the customer in an event where customer has opted to invest/convert into a CIS having Higher Risk Profile/ Eligible Score as compared to the respective customer's own Risk Profile/ Risk Score.

3. This document does not cover transactions received online through MCB-AH's Digital Savings Platform iSave as they are exempted from suitability assessment in the light of the Ethical Selling Guidelines issued by Mutual Funds Association of Pakistan ("MUFAP") with the consent of SECP

4. The Product Suitability Assessment will be conducted by authorized staff of MCB-AH/ Authorized Distributor on transactions received through Physical Application Forms at three (3) stages of transaction processing for the following transactions:

Type of Transactions

- First investment by new customer
- First investment in a CIS by existing customer
- First conversion in a CIS by existing customer

(a) Stage 1: Form Receipt

On receipt of application form for any of the above-mentioned types of transaction from the customer, the Sales Staff will ensure that customer's Risk Profiling Questionnaire section of Account Opening Form is duly filled in case of new customer or Risk Profile Score is available in the system for existing customer. In the event where customer has opted to Invest/Convert into a CIS having Higher Risk Profile/ Eligible Score as compared to the respective customer's own Risk Profile / Risk Score, the respective Sales Staff will be required to ensure the following:

(i) Provide awareness to the customer that he/she is investing/converting into a CIS which is Not as per his/her Risk Appetite; and

(ii) Provide awareness to the customer that if he/she wants to continue with the transactions, he/she shall be solely responsible for the transaction and will not hold the Company liable or responsible for these transactions in any manner.

(b) Stage 2: Form Reporting

Upon receipt of application form for any of the above-mentioned types of Transactions from all Direct/ Indirect Sales Channels, the Investor Services Officer (ISO) will perform scrutiny of the forms to ensure that customer's Risk Profiling Questionnaire section of Account Opening Form is duly filled in case of new customer/ Risk Profile Score is available in the system for existing customer. In the event where customer has opted to invest/convert into a CIS having Higher Risk Profile/ Eligible Score as compared to the respective customer's own Risk Profile / Risk Score, the respective ISO will be required to take following steps in the light of the Risk Based Approach explained in Paragraph No. 2 of Product Suitability Assessment:

Transaction will only be forwarded to Unit Holder Accounting ("UHA") Department for further processing once a Positive Confirmation has been received from the customer, else the transaction will be rejected and UHA Department will be asked to refund the amount to the customer.

All Negative Confirmation cases will be immediately reported to the Compliance Department along with transaction details.

(c) Stage 3: Form Processed

The following departments will be involved in monitoring of the transactions with respect product suitability once they are processed:

- **Investor Services Department**
- **Compliance Department**
- **Risk Management Department**
- **Internal Audit Department**

Employees Trading Policy

Employees Trading Policy of MCB-Arif Habib Savings and Investments Limited (hereinafter referred to as the "MCB-AH" or "Company") is fundamental to its values and essential to achieving its vision and mission. High ethical standards are critical to maintaining the stakeholders' trust in the Company.

The purpose of this Policy is to prevent any potential conflict of interest or the appearance of conflict of interest with respect to the personal transactions of the employees of the Company.

The Company has a strong commitment towards safeguarding the interest of its investment advisory clients and unit holders of its collective investment schemes and maintains highest trust and confidence in the professionalism of its employees. In order to maintain the confidence of investment advisory clients and unit holders on the Company, employees are required to uphold the similar sprit in all personal investment transactions that may not be expressly covered in this Policy.

This Employees Trading Policy shall be strictly followed by all permanent employees, contractual staff, outsourced staff and management trainee officers of the Company (hereinafter collectively referred to as the "employee(s)").

This Policy shall also be applicable on the investment activity of spouses and dependent children of employees of the Company.

All Employees, referred above, are supposed to carefully read and sign off the copy of the Employee Trading Policy and submit to the HR department for record.

The employee must give special consideration to the following areas:

- Scope of this policy
- Definition of Important Terms
- Minimum period to hold the security
- How to seek prior permission to make any transaction
- Eligible brokerage houses – Annexure A
- Mandatory Disclosure Requirement
- Prohibited Investment Action
- Understanding reporting Annexures B & C

Anti-Money Laundering – Relevant Policies and Guidelines

In order to safeguard Non-Banking Finance Companies ("NBFCs") against involvement in money laundering activities, terrorist financing and other illegal trades by their investors, the Securities and Exchange Commission of Pakistan ("SECP") vide a Circular No. 12 of 2009 dated April 28, 2009 (now repealed) had instructed all NBFCs to inter alia formulate a comprehensive Anti-Money Laundering/ Countering Financing of Terrorism (AML/CFT) and Know Your Customer & Customer Due Diligence (KYC & CDD) Policy to be approved by the respective Boards of Directors, to include a description of various types of customers that were likely to pose a higher than average risk to the NBFCs. Thereafter, Anti Money Laundering Act 2010 ("AML Act") was enacted by the Legislature. Pursuant to AML Act, the SECP in order to combat money laundering, terrorism financing and financing of other illegal criminal activities in Pakistan, has now made the Securities and Exchange Commission of Pakistan (Anti Money Laundering and Countering Financing of Terrorism) Regulations, 2018 ("AML Regulations") on June 13, 2018, which have been amended from time to time.

After the implementation of AML Regulations, the SECP has also issued Guidelines on Anti-Money Laundering, Countering Financing of Terrorism and Proliferation Financing in September, 2018, as amended on November 02, 2018 ("AML/CFT Guidelines") in line with the international best practices. The SECP has now instructed all regulated persons ("RPs"), as defined in AML Regulations, including Asset Management Companies ("AMCs") to evolve and implement an AML/CFT & KYC & CDD Policy with the approval of their respective Boards of Directors, to enable them to effectively manage and mitigate the risks that are identified in risk assessment of Money Laundering ("ML") and Terrorism Financing ("TF") as stipulated under Regulation 4 of AML Regulation

AML/CFT and KYC/CDD Policy and Procedures Manual

This Anti-Money Laundering/ Countering Financing of Terrorism (AML/CFT) and Know Your Customer/ Customer Due Diligence (KYC/CDD) Policy and Procedures Manual (hereinafter referred to as the "Manual") has been prepared by the senior management of MCB-Arif Habib Savings and Investments Limited (hereinafter referred to as the "Company") to address the AML/CFT & KYC/CDD requirements for the unit holders/investors investing in the Collective Investment Schemes and Voluntary Pension Schemes (hereinafter collectively referred to as the "Schemes") managed by the Company. This Manual is also applicable to the Discretionary and Non-Discretionary Portfolio Clients of the Company. Unit holders/investors of the Schemes and Discretionary/Non-Discretionary Portfolio Clients of the Company are hereinafter collectively referred to as the "Customers" of the Company and include those individuals and entities who are establishing relationship with the Company for the first time by opening investor accounts and/or Discretionary/Non-Discretionary Portfolio accounts. This Manual has been approved by the Company's Board of Directors at its meeting held on April 15, 2019.

All Sales staff are required to go through the manual in order to effectively carry out their responsibilities and clear the internal assessment of Basis Sales Training. The Manual is shared with every sales team member during the training.

Internal Processes

Every member of the sales team should possess sound understanding on the following processes in order to effectively carry out their responsibilities:

- Investor Services Department (ISD) - Distribution Support Unit (DSU) Functions
- Quality Assurance Functions and
- Call Center Unit
- Effective use of I-Save

The briefings on above processes and I-Save applications have been recorded by relevant department/ section heads for convenience which every sales team member, especially new inductees, must watch and make notes of. The video recordings will soon be available on MCBAH's E-Learning portal.

Basic Sales Training Internal Assessments

Challenging your understanding possess significant value in learning process. Considering this, we have developed an online internal assessments via *E-Learning portal* which every new employee is supposed to go through. Each candidate is required to clear the internal assessment with at least 75% score.

The scores are well recorded and timely shared with regional heads.

Periodic Internal Assessments

To ensure that the sales team is well equipped with relevant updates in regulations, circulars and policies, periodic sessions are conducted. The periodic sessions not only provide the updates but also help the team to refresh their previous knowledge. To test their understanding, the Periodic Assessments are conducted which the team is required to clear with at least 70% score.