SECP

SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN
SPECIALIZED COMPANIES DIVISION
POLICY, REGULATION AND DEVELOPMENT DEPARTMENT

No. SCD/AMCW/FCMF/ 15 /2020 August 04, 2020

Chief Executive Officer
First Capital Investments Limited,
2nd & 3rd Floor, Pace Mall,
Fortress Stadium,
Lahore

Subject: **Approval of 4th and 5th Supplemental Offering Document of First Capital Mutual Fund**

Dear Sir,

Please refer to the emails dated July 08, 2020 on the captioned subject.

In this connection, I am directed to inform you that the 4th and 5th supplements to the offering document of First Capital Mutual Fund proposed by First Capital Investment Limited has been acceded to by the Securities and Exchange Commission of Pakistan.

Further, you are advised to inform/notify the unit holders regarding the proposed amendments in the Offering Document in accordance with Regulation 44(7) of the NBFC & NE Regulations, 2008 and also place the 4th and 5th supplements to Offering Document of the Fund on the website of First Capital Investment Limited.

Yours truly,

Yasir
4/8/2020

Wazirzada Yasir A. Khan
Addl: Joint Director

"Say no to Corruption"

Cc: Chief Executive Officer
Central Depository Company- Trustee
CDC- House, 99-B, Block 'B', S.M.C.H.S, Main Shahra-e-Faisal
Karachi.

NIC Building, Jinnah Avenue, Blue Area, Islamabad.
PABX: 9207091-4 , Fax. No. 9218590

4th Supplement to the Offering Document of First Capital Mutual Fund (FCMF)

Dated: 18-04-2020

Fourth Supplement Dated 18-04-2020 to the Offering Document of First Capital Mutual Fund (FCMF)

(Managed by First Capital Investments Limited (FCIL) an Asset Management Company registered with the Securities & Exchange Commission of Pakistan (SECP) and regulated under the Non-Banking Finance Companies (NBFC) Rules 2003 and Non-Banking Finance Companies and Notified Entities (NE) Regulations, 2008.)

First Capital Mutual Fund is established in Lahore, Pakistan as an Open end Scheme through a Trust Deed, dated August 06, 2013 under the Trusts Act, 1882 between First Capital Investments Limited, as the Management Company and Central Depository Company of Pakistan Limited (CDC), as the Trustee and authorized under the Non-Banking Finance Companies and Notified Entities Regulations, 2008.

1. Effective from 04-08-2020 the following clauses are proposed to be included in the Offering Document subject to the approval of SECP:

   Replace **clause 2.2.1** with the following clause;

   "*Consistent with its Objective, the Scheme shall primarily invest its net assets in equity and equity related instruments. While the remaining assets shall be invested in cash and/or near cash instruments, including bank deposits (excluding TDRs) and T. Bills of maturities not exceeding 90 days.*"

2. Replace sub-Clause (a) of **clause 2.2.2** with the following clause;

   "At least 70% of its Net Assets shall remain invested in listed equity securities or CIS may take equity exposure through equity future contracts during the year based on quarterly average investment calculated on daily basis"

3. Insert a new sub-clause (d) under **clause 2.2.2** as given below;
   "(d) Net Assets shall be invested in exchange traded equity future contracts:

   I. The CIS may take equity exposure through equity future contracts (deliverable Future Contracts, Single stock Cash Settled Futures and/or Stock Index Future Contracts).
   II. The CIS may take exposure through equity future contracts for meeting the investment objective of the CIS or for the purpose of hedging.
   III. The CIS may purchase deliverable equity future or cash settled equity futures and for this purpose the difference between the contract price and upfront margin shall be invested in cash and near cash instruments.
   IV. The CIS cannot blank sale in deliverable equity future contracts.
   V. The CIS may sell deliverable equity futures contracts against its existing ready market open purchase position in the same scrip if such open position will settle prior to

or on the same settlement date as the settlement of the deliverable equity futures contracts or against shares held in CDC.

VI. The CIS may sell deliverable equity future contracts against its existing deliverable future purchase position in the same security till such time that such position is settled or a CIS may sell cash settled equity futures contracts against its existing cash settled equity future purchase position in the same security till such time that such position is settled. However, such exposure shall not exceed 40% of the net assets of the scheme.

VII. The CIS may sell in cash settled equity futures contracts maximum up to 5% of the net assets of the CIS without pre-existing interest in the security provided that it complies with the relevant regulation of the Pakistan Stock Exchange Limited Regulation. However, such position shall be covered by the underlying cash or near cash instruments."

4. Insert a new point under clause **2.7 Risk Disclosure** as #9 Derivative risk as given below;

"(9) Derivative Risk - Derivatives may be used to limit or hedge potential losses associated with stock markets and return/mark-up rates. This process is called "hedging". Derivatives may also be used for non-hedging purposes - to reduce transaction costs, achieve greater liquidity, and create effective exposure to financial markets or increase speed and flexibility in making portfolio changes. Any use of derivatives has risks including:

a) The hedging strategy may not be effective.

b) There is no guarantee that a market will exist when a Fund wants to buy or sell the derivative contract.

c) A large percentage of the assets of a Fund may be placed on deposit with one or more counter parties, which exposes the Fund to the credit risk of those counterparties.

d) There is no guarantee that an acceptable counterpart will be willing to enter into the derivative contract.

e) The counter-party to the derivative contract may not be able to meet its obligations.

f) The Exchanges on which the derivative contracts are traded may set daily trading limits, preventing a fund from closing out a particular contract.

g) If an exchange halts trading in any particular derivative contract, a Fund may not be able to close out its position in that contract.

h) The price of a derivative may not accurately reflect the value of the underlying security or index."

5. Insert a new Para in addition to existing Para under clause **2.8 Disclaimer** as given below;

"The Fund shall use future contracts as an investment tool to meet investment objective of the Scheme as well as for hedging and risk management purpose. The Fund shall

adopt adequate risk management system (VAR based mechanism) to reduce risk associated with future contracts."