



Securities and Exchange Commission of Pakistan
Specialized Companies Division
NBFC Department

No.NBFCD/MF/CIRCULAR/2009/292

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CIRCULAR NO: 07 of 2009

Categorization of open-end Collective Investment Schemes

1. Categorization of the open-end Collective Investment Schemes ("CIS"), on the basis of investment parameters including eligible asset classes with pre-specified risk profile is imperative to enable the investors to make informed decision and to bring uniformity in the mutual funds industry for comparing performance of various open-end CIS.
2. The Securities and Exchange Commission of Pakistan ("the Commission") in consultation with the Mutual Funds Association of Pakistan ("MUFAP") has devised criteria for categorization of open-end CIS.
3. In exercise of the powers conferred under section 282B (3) of the Companies Ordinance, 1984 read with Regulation 55 (2) of Non-Banking Finance Companies and Notified Entities ("NBFC") Regulations, 2008, the Commission hereby directs all the Asset Management Companies (AMCs) to ensure that all existing and upcoming open-end CIS shall be categorized in accordance with the criteria attached as **Annexure** to this Circular in true letter and spirit.
4. Categorization of existing open-end CIS shall be approved by the Board of Directors of each AMC and AMC shall ensure that requisite amendments in relation to categorization, investment objective and relevant benchmark are incorporated in the constitutive documents of the open-end CIS.
5. The AMCs shall bring the investment portfolio of open-end CIS in accordance with the categorization as approved by the Board of Directors of AMC and shall also make requisite amendments in the constitutive documents of the open-end CIS within one year of the date of this Circular.
6. All upcoming open-end CIS including those which have been registered but not yet offered to the public shall be categorized in accordance with the annexed criteria and requisite amendments, with the approval of the Commission, shall be made in the constitutive documents before launch of such open-end CIS.
7. Each open-end CIS shall be assigned only one category and AMCs shall ensure that the investment parameters associated with such type of schemes are strictly followed. A category once assigned to open-end CIS shall not be changed.

8. Henceforth, the pricing mechanism for all open-end CIS with the exception of money market schemes shall be based on forward pricing mechanism. All existing open-end CIS on backward pricing mechanism shall transition to forward pricing mechanism within three months from the date of this Circular.
9. In case of any clarification with respect to this circular, all AMCs and MUFAP shall approach the Commission for this purpose.
10. This Circular shall come into force with immediate effect.


(Asif Jalal Bhatti)
Director (NBFCF)

Distribution:

- (i) Chief Executive Officers, all Asset Management Companies
- (ii) Mutual Funds Association of Pakistan
- (iii) Trustees of Mutual Funds

CRITERIA FOR CATEGORIZATION OF OPEN - END COLLECTIVE INVESTMENT SCHEMES

Open-end schemes shall be categorized as per the following criteria:

1. Equity Scheme

- i) At least 70% of its net assets shall remain invested in listed equity securities during the year based on quarterly average investment calculated on daily basis;
- ii) The remaining net assets shall 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; and
- iii) It shall not take exposure to Continuous Funding System (CFS).

2. Balanced Scheme

- i) Investment avenues - listed equity securities, government securities, cash in bank accounts, money market placements, deposits, certificate of deposits (COD), certificate of musharakas (COM), TDRs, commercial papers, reverse repo, TFCs/ Sukuks, CFS, spread transactions, preference shares;
- ii) Net assets ranging between 30% to 70% shall remain invested in listed equity securities at all times. The scheme may sell in the cash-settled futures market against a position held in the underlying security, however, the minimum 30% non-hedged exposure in listed equity securities shall be maintained at all times;
- iii) The remaining net assets shall be invested in the authorized investments as specified in the offering document of the scheme;
- iv) Rating of any debt security in the portfolio shall not be lower than A- (A Minus);
- v) Rating of any NBFC and Modaraba with which funds are placed shall not be lower than AA (Double A);
- vi) Rating of any bank and DFI with which funds are placed should not be lower than AA(-) (Double A Minus);
- vii) Weighted average time to maturity of non-equity assets shall not exceed 2 years; and
- viii) Exposure to CFS and spreads shall not exceed 25% of the net assets.



3. Asset Allocation Scheme

- i) Asset Allocation Scheme may invest its net assets in any type of securities at any time with a provision to diversify its net assets across multiple types of securities and investment styles as specified in their offering documents;
- ii) Every such scheme shall disclose in its offering document the following;
 - a) Authorised investments; and
 - b) Rating of securities that it would invest in.
- iii) The investment within each asset class shall be governed by the criteria applicable to schemes of that asset class.

4. Fund of Funds Scheme

- i) Such scheme shall invest its net assets in other schemes only;
- ii) Every such scheme shall mention its type with respect to asset class, e.g., equity fund of funds, income fund of funds etc. in its offering document;
- iii) Every such scheme will be invested either in units of other collective investment schemes as per its investment policy or in cash and/ or near cash instruments which include cash in bank accounts (excluding TDRs), and treasury bills not exceeding 90 days maturity;
- iv) Every such scheme shall ensure that it does not invest in the seed capital of any other collective investment scheme;
- v) A fund of fund scheme may also be established with the objective of investing in closed-end schemes.

5. Shariah Compliant (Islamic) Scheme

- i) Such scheme shall invest its assets only in Shariah compliant assets;
- ii) In all other categories except money market Shariah Compliant Schemes, rating of any bank or DFI with which funds are placed should not be lower than A- (A minus) and rating of debt instruments in the portfolio should not be lower than A- (A minus); and
- iii) Every such scheme shall be categorized with respect to equity, fund of funds, income etc. in its constitutive documents and follow the conditions applicable to that category.

6. Capital Protected Scheme

- i) Such scheme shall make investments in such a manner that the original amount of investment is protected whilst having the potential to yield positive returns, with such conditions as to tenure of investment and any other conditions that are disclosed in the



offering document; the offering document of such scheme shall clearly demonstrate how this capital protection is intended to be achieved; and

- ii) In the event that such scheme is protecting the investment capital by placing a term deposit with a bank or DFI, the rating of such bank or DFI at the time of offering the scheme shall not be lower than AA- (Double A minus).

7. **Index Scheme/ Index Tracker Scheme**

- i) Such schemes shall strive to mimic the stated index and disclose the likely tracking error in the Offering Document;
- ii) An Index scheme shall strive to remain fully invested in accordance with the stated index, however, under no circumstances shall it be invested less than 85% of its net assets in securities covered in the index or its subset during the year based on monthly average investment calculated on daily basis. The uninvested amount shall be kept in cash and/ or near cash instruments where near cash instruments include cash in bank account (excluding TDRs), and treasury bills not exceeding 90 days maturity;
- iii) Index schemes and index tracker schemes may select an index (or a subset thereof) established by a recognized independent third party.

8. **Money Market Scheme**

- i) Investment avenues - government securities, cash and near cash instruments which include cash in bank accounts (excluding TDRs), treasury bills, money market placements, deposits, certificate of deposits (COD), certificate of musharakas (COM), TDRs, commercial papers, reverse repo;
- ii) No direct/ indirect exposure to equities, i.e. no exposure in equities, CFS, spread transactions, etc.;
- iii) Rating of any NBFC and Modaraba with which funds are placed shall not be lower than AAA (Triple A);
- iv) Rating of any bank and DFI with which funds are placed should not be lower than AA (Double A);
- v) Rating of any security in the portfolio shall not be lower than AA (Double A);
- vi) Time to maturity of any asset shall not exceed six months; and
- vii) Weighted average time to maturity of the net assets shall not exceed 90 days.

9. **Income Scheme**

- i) Investment avenues - government securities, cash in bank account, money market placements, deposits, certificate of deposits (COD), certificate of musharakas (COM), TDRs, commercial paper, reverse repo, TFC/ Sukuk, CFS, spread transactions;



- ii) Exposure to CFS and Spreads shall not exceed 40% of the net assets;
- iii) At least 25% of the net assets shall be invested in cash and near cash instruments which include cash in bank account (excluding TDRs), treasury bills not exceeding 90 days maturity;
- iv) Not more than 15% of the net assets shall be invested in non traded securities including reverse repos, bank deposits, certificates of investments (COI), certificate of musharakas (COM) and anything over 6 months maturity which is not a marketable security;
- v) Rating of any security in the portfolio shall not be lower than investment grade;
- vi) Rating of any NBFC and Modaraba with which funds are placed shall not be lower than investment grade;
- vii) Rating of any bank and DFI with which funds are placed should not be lower than investment grade;
- viii) Weighted average time to maturity of the net assets shall not exceed 4 years and this condition shall not apply to securities issued by the Federal Government; and
- ix) No restriction regarding:
 - Time to maturity of any single asset in the portfolio;
 - Duration of a single security in the portfolio.

10. Aggressive Fixed Income Scheme

- i) Investment avenues - government securities, cash in bank account, money market placements, deposits, certificate of deposits (COD), certificate of musharakas (COM), TDRs, commercial paper, reverse repo, TFC/ Sukuk, CFS, spread transactions;
- ii) At least 10% of the net assets shall be invested in cash and/ or near cash instruments which include cash in bank account (excluding TDRs), and treasury bills not exceeding 90 days maturity;
- iii) Both rated and unrated securities shall be eligible for investment, below investment grade rated securities shall also be eligible for investment;
- iv) Weighted average time to maturity of the net assets shall not exceed 5 years and this condition shall not apply to securities issued by the Federal Government;
- v) No restriction regarding time to maturity of any single security in the portfolio.

