

# DEMYSTIFYING MYTHS : Closed-End Mutual Fund

December 31, 2009

## INTRODUCTORY NOTE

*In the international as well as the regional markets there are closed-end mutual funds which have fixed tenure and there are others which have not. There are closed-end funds which are listed on the stock-exchanges and there are also other similar funds which are not. In all the three countries India, Pakistan and Bangladesh closed-end funds established under company or trust structure have declared bonus units and extended right offers to increase size. There are such funds which only pay bonus units and no cash dividend or they pay with a combination of both. Some are structured to make a bullet-payment only once at maturity with no cash dividend payment during the whole life of the fund. Now many closed-end funds are eventually and usually turned to open-end funds on maturity/redemption, if any, with switching entitlement during new fund (scheme) offers or roll-over options on maturity. There are also examples of open-end funds which are fixed tenured and there are also open-end funds which are exchange traded. There are also instances where unlisted closed-end mutual funds offered options of repurchase to investors on fixed dates and listed closed-end funds have resorted to buy-back and retirement of own units from the secondary market for reissuing at later dates during its life time. Such characteristics are not contingent on the fund being a corporate or a trust structure. There are crosscutting instances under both.*

*The common denominator of standard and best practice defining closed-end funds is that such funds do not sell or redeem units on demand unlike the open-end funds which are obliged to sell/issue new units and redeem such units continuously on demand at declared prices.*

*In all the three countries, Bangladesh, Pakistan and India, Mutual Funds are established under the same Trust Act 1882, inherited from the British colonial period, and operated under respective Mutual Fund/Collective Investment Scheme Rules/Regulations of the capital market regulatory authorities. In no country mutual funds of any type or nature, including closed-ended mutual funds, are barred from issuing bonus and/or right offers under any law/rules/regulations. In some jurisdictions they do not do so by convention. Bangladesh is possibly the only instance which has barred closed-end mutual funds from declaring bonus or right entitlements through specific rule.*

*It is, however, also quite common in the developed markets for mutual funds (both closed-end or open-ended) to declare bonus units as dividends and make right offers. But the concept of right offering from open-end mutual funds is somewhat redundant by definition, as it is sold on demand.*

The assertions made at the introductory note is substantiated through verifying the relevant rules and regulations governing mutual funds in some countries, tracking the development of the mutual fund industry in the region and review of some prospectus or offer document of some leading regional funds.

## PART I:

### OPEN & CLOSED END SCHEMES AS DEFINED UNDER RULES AND REGULATIONS IN SOME JURISDICTIONS

**Securities & Exchange Commission (SEC), USA Investment Company Act 1940 (As Amended Through PL 111-72, October 13, 2009)**

Section 2 (a) (8) : **"Company"** means a corporation, a partnership, an association, a joint-stock company, a trust, a fund, or any organized group of persons whether incorporated or not; or any receiver, trustee in a case under title 11 of the United States Code or similar official or any liquidating agent for any of the foregoing, in his capacity as such; Section 4 (2) : **"Unit Investment Trust"** means an investment company which (A) is organized under a trust indenture, contract of custodianship or agency, or similar instrument, (B) does not have a board of directors, and (C) issues only redeemable securities. Each of which represents an undivided interest in a unit of specified securities; but does not include a voting trust. Section 5 (a)(1) : **"Open-end Company"** means a management company which is offering for sale or has outstanding any redeemable security of which it is the issuer. Section 5 (a)(2) : **"Closed-end Company"** means any management company other than an open-end company.

*Quite curiously, a mutual fund 'trust' is also categorized as a 'company' in the USA.*

**Securities & Exchange Commission Pakistan (SECP) Non-Banking Finance Companies & Notified Entities Regulations 2008, November 21, 2008**

Section 2 (v) : **"Collective Investment Scheme"** means a Closed End Fund and an Open End Scheme; Section 2 (vi) : **"Closed End Fund"** means an Investment Company or a Closed End Scheme; Section 2 (vii) : **"Closed End Scheme"** means a Scheme constituted by way of trust to raise funds through issue of certificates to the public for investing in securities including money market instruments for a definite or indefinite period which does not continuously offer certificates entitling the holder of such certificates, to receive, on demand, proportionate share of the net-assets of the Closed End Scheme; Section 2 (viii) : **"Constitutive Documents"** means the trust deed, Offering Document and other principal documents governing the formation of a Closed End Scheme or an Open End Scheme, including all related material agreements; Section 2 (xxxii) : **"Open End Scheme"** means a Scheme constituted by way of a trust deed that continuously offers for sale its units as specified in the Constitutive Document that entitle the holder of such units on demand to receive his proportionate share of the net assets of the scheme less any applicable charges;

**Securities & Exchange Commission Pakistan (SECP) Specialized Companies Division, NBFC Department, No. NBFC-II/DJ(R)/Circulars/504/2006 August 01, 2006 Circular No. 12 of 2006 Subject : Right Issue & Underwriting by Collective Investment Scheme**

2. Closed-end funds shall not issue right certificates at a price which is less than average of net asset value of certificates over a 90 day period immediately preceding the announcement of right issue. Suitable amendments in the trust deeds of the respective funds shall be made within three months of the issue of this directive by NBFCs holding investment advisory license.

*Pakistan appears to be the only regional market where pricing mechanism for Right Issue by a Closed-end Mutual Fund is specifically articulated.*

**GAZETTE OF INDIA EXTRAORDINARY PART II SECTION-3-SUB-SECTION (ii), October 15, 1999 Securities and Exchange Board of India (SEBI) NOTIFICATION, SEBI (Collective Investment Schemes) Regulations 1999**

Section 2 (1) (j) : "Closed-Ended Scheme" means any scheme launched by a Collective Investment Management Company, in which the period of maturity of the scheme is specified and there is no provision for re-purchase before the expiry of the maturity of the scheme; Section 16 (1) : A scheme shall be constituted in the form of a trust and the instrument of trust shall be in the form of a deed duly registered under the provisions of the Indian Registration Act, 1908 (16 of 1908) executed by the Collective Investment Management Company in favor of the trustees named in such an instrument. Section 24 (4) : Collective Investment Management Company shall :- (a) launch only close ended schemes; (b) the duration of the schemes shall not be of less than three calendar years.

**GAZETTE OF INDIA EXTRAORDINARY PART II SECTION -3-SUB-SECTION (ii), December 09, 1999. Securities and Exchange Board of India (SEBI). SEBI (Mutual Funds) Regulations 1996**

Section 2 (f) : "Close-Ended Scheme" means any scheme of a mutual fund in which the period of maturity of the scheme is specified; Section 2 (q) : "Mutual Fund" means a fund established in the form of a trust to raise monies through the sale of units to the public or a section of the public under one or more schemes for investing in securities; including money market instruments or gold or gold related instruments; Section 2 (s) : "Open-Ended Scheme" means a scheme of a mutual fund which offers units for sale without specifying any duration for redemption;

*As the only regional instance, Closed-end Funds in India, by regulation, must have a specified maturity which cannot be tenured less than three years, without any upper limit.*

**Securities and Exchange Board of India (SEBI) INVESTMENT MANAGEMENT DEPARTMENT, SEBI/IMD/ CIR No. 12/147132/08, December 11, 2008, Sub: Review of Provisions relating to Close Ended Schemes**

In order to further strengthen the framework for close ended schemes, it has been decided that for all close ended schemes (except Equity Linked Savings Schemes) to be launched on or after December 12, 2008: 1. The units shall be mandatorily listed. The provisions in the SEBI (Mutual Funds) Regulations, 1996 regarding repurchase and re-issue and

exemption from listing of units of close ended scheme would be suitably amended in due course.

It has also been decided that a close ended debt scheme shall invest only in such securities which mature on or before the date of the maturity of the scheme. Schemes for which observations (final) under Regulation 29 of SEBI (Mutual Funds) Regulations, 1996 have been issued but are yet to be launched would be required to carry out the changes in Scheme Information Document and file the same with SEBI before the launch.

*Stock exchange listing of all Closed-end Mutual Funds was made mandatory in India only from December 2008. It was optional earlier.*

**PART II**

**BONUS & RIGHT ISSUES BY PIONEERING REGIONAL CLOSED-END MUTUAL FUND UNDER TRUST INDENTURE**

***Unit Trust of India (UTI) Mastershare :***

Unit Trust of India (UTI) was created in 1963 under state ownership. For more than two decades it remained the sole vehicle for investment in the capital market by the Indian citizens and maintained its pre-eminent place till 2001, when a massive decline in the market indices and negative investor sentiments after *Ketan Parekh scam* created doubts about the capacity of UTI to meet obligations to investors. This was further compounded by other factors; namely, its flagship and largest scheme "US 64" was sold and re-purchased not at intrinsic NAV but at artificial prices and its "Assured Return Schemes" had promised returns as high as 18% over a period going up to two decades. Fearing a run on the institution and possible impact on the market, the government came up with a rescue package and change of management in 2001. Subsequently, the institution was bifurcated and UTI Mutual Fund was created as a SEBI registered fund like any other mutual fund.

Among other schemes, on September 19, 1986 UTI launched a closed-ended scheme established under Trust Act 1882 and named as "UTI Mastershare Unit Scheme" which became one of its most popular mutual fund schemes. The scheme was converted in to an open-ended scheme on September 12, 2003. However, prior to conversion and during the years of operation as a closed-ended scheme the "UTI Mastershare Unit Scheme" declared bonus and right issues in the following years :

<i>Bonus declared :</i>	<i>Right offer :</i>
1:2 August 1991	1:2 January 1989
1:3 December 1993	1:3 December 1993
1:5 September 1995	

***Investment Corporation of Pakistan (ICP) Close-End Mutual Funds :***

The Investment Corporation of Pakistan (ICP) was established in February, 1966. The Corporation floated 25 Mutual Funds and a State Enterprise Mutual Fund all of which were closed-end funds. In 2002, the Government started privatization of the ICP. Out of 26 closed-end funds of ICP 25 were split into two

lots. Management Right of Lot-A comprising 12 funds was acquired by ABAMCO Limited through a competitive bidding. Out of these 12, the first 9 funds were merged into a single closed-end fund named as ABAMCO Capital Fund, except 4th ICP mutual fund as the certificate holders did not approve the amalgamation into ABAMCO Capital Fund at the EGM held on December 20, 2003. The fund was therefore reorganized as a separate closed-end trust and named as ABAMCO Growth Fund. Rest of the three funds were merged into another single trust and named as ABAMCO Stock Market Fund. Between 7th February 2004 and 13th March 2004 all these Funds were delisted and later converted in to Open Ended Mutual Funds. For year 2003, the last year of operation as closed-end schemes, nine of the ICP Mutual Funds under management of ABAMCO declared following cash and bonus dividends :

1st ICP MF : Cash 16%, Bonus 15%  
 3rd ICP MF : Cash 20%, Bonus 10%  
 4th ICP MF : Cash 42%, Bonus 10%  
 8th ICP MF : Cash 32.5%, Bonus 17.5%  
 11th ICP MF : Cash 24%, Bonus 12.5%  
 12th ICP MF : Cash 18%, Bonus 12.5%  
 15th ICP MF : Cash 17.5%, Bonus 7.55%  
 19th ICP MF : Cash 21%, Bonus 10%  
 20th ICP MF : Cash 21%, Bonus 10%

The BSJS Balanced Fund (BBF) under management of ABAMCO Limited also declared a cash dividend of 15% and a Bonus of 10% as well as Right Offer at 200% for the same financial period ending June 30, 2003.

So far as the Lot-B is concerned, it comprised of 13 ICP funds. For all of these thirteen funds, the management right was acquired by Pakistan Industrial Credit & Investment Corporation (PICIC) Asset Management Company Limited. All of these thirteen funds were merged into a single closed-end fund which was named as "PICIC Investment Fund". Later on the 26th fund of ICP (ICP-SEMF) was also acquired by PICIC Asset Management Company Limited. The certificate holders in extraordinary general meeting held on June 16, 2004 approved the reorganization of SEMF into a new closed-end scheme renamed as "PICIC Growth Fund". The Central Depository Company of Pakistan Limited is the Trustee of the Fund like most mutual funds in Pakistan. The PICIC Asset Management Company (PAMC) declared 15% interim cash dividend and 20% interim bonus for the closed-end PICIC Growth Fund (PGF) in June 2006. Earlier the Fund also declared 25% interim bonus stocks in December 2004.

#### ***Investment Corporation of Bangladesh (ICB) Mutual Funds :***

Based on the experience of UTI in India and ICP in Pakistan, the Investment Corporation of Bangladesh (ICB) was established on October 1, 1976 under the Investment Corporation of Bangladesh Ordinance 1976. It floated the Tk5 million closed-end First ICB Mutual Fund on April 4, 1980. The Fund and other such subsequent schemes of ICB were listed with the exchanges but none of those have any definite tenure or period of redemption. It also launched the ICB Unit Fund as the only open-end mutual fund which is possibly still the largest mutual fund in Bangladesh. This Unit Fund is not listed with the stock exchanges. Between April 1980 and July 1996

ICB launched eight closed-end mutual funds. The size of the last such scheme, Eighth ICB Mutual Fund, was Tk50 million.

As a part of the Asian Development Bank (ADB) Capital Market Development Program (CMDP) the ICB formed three separate wholly-owned subsidiaries under the Investment Corporation of Bangladesh (Amendment) Act, 2000 namely ICB Capital Management Limited (July 1, 2002), ICB Assets Management Company Limited (July 1, 2002) and ICB Securities Trading Company Limited (August 13, 2002). Though under almost a similar ADB Program in Pakistan the Investment Corporation of Pakistan (ICP) was disbanded and the mutual funds under the management of ICP were transferred to private management. The ICB in Bangladesh continued to manage the already floated mutual funds.

The First ICB Mutual Fund declared cash dividend @ 190% and stock dividend @ 50% for the year 2006-07 on July 31, 2007. It was a first such instance in Bangladesh market which was greeted by investors though some, including the then only private asset manager, initially opposed such moves to break with convention that might fuel growing investor expectations and put pressures on the Trustee and Asset Managers of mutual funds to act similarly. However, the SEC thought otherwise and allowed introduction of the culture of awarding bonus issues by close-end mutual funds as was being prevalent in other markets, both matured and developed.

Following the instance of the pioneer First ICB Mutual Fund (Closed-end Fund listed on the stock exchange in April 1980), the privately managed AIMS First Guaranteed Mutual Fund (Closed-end Fund listed in March 2000) also declared 20% stock and 10% cash dividend in the same year, as the second such instance in Bangladesh.

*Interestingly, all the pioneering fund managers in the three countries declared Bonus Units/Certificates for Unitholders.*

### **PART III**

#### **SOME REGIONAL INSTANCES OF CLOSED-END FUNDS WITH UNIQUE FEATURES**

##### ***Morgan Stanley Mutual Fund (MSMF)- India***

The Fund launched the **Morgan Stanley Growth Fund Scheme (MSGF)** in September 1993 to be traded on the Mumbai, Kolkata, Delhi, Madras and Ahmadabad Stock Exchanges with duration of 15 years from the date of allotment. The dividend policy of the Scheme as detailed on the Information Memorandum/Prospectus states :

*"It is currently intended that all of the Scheme's net investment income and capital gains will be reinvested in its investment portfolio. The Scheme will therefore ordinarily not declare dividends. However, the Board of Trustees of MSMF may, if it deems advisable, declare dividends or distribution of profits in cash or in Units of the Scheme from time to time."*

MSMF was constituted as a Trust under the provisions of the Indian Trust Act 1882 and registered under the Indian Registration Act 1908. It was registered with the Securities & Exchange Board of India (SEBI) on November 05, 1993.

### ***BMA Principal Guaranteed Fund I – Pakistan***

The close-end fund was launched by BMA Capital Management Limited during December 2006. The Fund was established through a Trust Deed under the Trust Act 1882 executed on April 27, 2006 and listed on the Karachi Stock Exchange. It was to cease operation after 24 months from the close of IPO with option of conversion to Open-end Fund, like most Mutual Funds in India and Pakistan. The dividend distribution policy of the Scheme as detailed on the Information Memorandum/Prospectus states :

*“At least 90% of the annual income, excluding realized and unrealized capital gains, received by the Fund reduced by such expenses as are chargeable to the Fund under the Non-Bank Finance Company (NBFC) Rules shall be distributed annually by way of Bonus Certificates.”*

It further clarifies that “the Bonus Certificates shall rank *pari passu* with the existing certificates of the Fund in all matters, including their rights in the net assets, earnings, and the receipt of the dividends and distributions” and that “since the Fund will distribute income only by means of Bonus Shares, no withholding tax will apply.”

### ***ING Vysya Dynamic Asset Allocation Fund –India***

ING Vysya Mutual Fund (earlier known as ING Savings Trust) was constituted as a Trust on October 8, 1998 under the Indian Trusts Act, 1882. The Mutual Fund was registered with SEBI on February 11, 1999 under Registration Code MF/040/99/5. The ING Vysya Dynamic Asset Allocation Fund launched on September 27, 2006 is a close-ended scheme with ‘Repurchase’ facility. The Scheme has following features :

***Choice of Dividend, Growth & Bonus Option:*** The investors will have the choice of three options viz. Dividend Option, Growth Option & Bonus option. **1. Dividend Option** - Under this option the Trustees may declare dividends at such frequencies as may be decided by them, to Unitholders whose names appear in the Register of Unitholders on the record date. **2. Growth Option**- The income earned by the Scheme will normally remain invested in the Scheme and will be reflected in the NAV. This option is attractive to those investors aiming for capital appreciation. **3. Bonus Option**- The Fund may issue by way of bonus units, the surplus by realized profit, dividend and interest, net of losses, expenses and taxes, if any, to Unitholders in the Bonus Option, if such surplus is available and adequate for distribution in the opinion of Trustees.

***Liquidity :*** Liquidity will be available to investors through re-sale of their units to the Scheme.

***Switching:*** Option to switch all or part of one's investments in the Scheme, to any other scheme established by the Fund at Redemption Price in order to meet changing investment needs of the investors. The Switch will be effected by way of redemption of Units from the Scheme and a reinvestment of the redemption proceeds in the other Schemes.

### ***AIMS First Guaranteed Mutual Fund (AFGMF) – Bangladesh***

Sponsored jointly by eight leading financial institutions of the country and launched by Asset & Investment Management Services (AIMS) of Bangladesh Limited as a closed-end single scheme listed mutual fund with a 5-year initial tenure under Trust Act 1882, AFGMF received Registration Certificate (MF/001/6/2000) on January 27, 2000 from the Securities & Exchange Commission (SEC) as the first private mutual fund in independent Bangladesh in the back-drop of the post-1996 traumatic experience. It emerged as the only minimum denominated stock in the market having a Face Value of Tk1 only and there was no concept of Market Lot for secondary market trading like in mature markets. It had an interesting Capital Guarantee feature whereby the investors, including the sponsors, of the Fund are guaranteed with respect to their initial capital investment on redemption. The initial subscription amount, i.e., the face value will be paid back at maturity (redemption) even if the per share NAV falls below par at that point of time. The capital of the Fund was fully underwritten at redemption by IDLC of Bangladesh Limited and AIMS of Bangladesh Limited up to a maximum amount of Tk100 million.

On inception and during its continued lifetime, the AFGMF pioneered and introduced new concepts and global best practices in the sector, including minimum face value, capital guarantee, subscription retention, roll-over and extension on maturity, right entitlement for Unitholders, stock units as dividend entitlement, granting voting rights and holding of general meeting of Unitholders etc. The Trust Deed and the Prospectus of the Fund exposed the local market to many unique and distinct features for the first time.

#### **IPO Subscription Retention :**

In this regard the provisions on the prospectus of the Fund was - ***Retention in Case of Over Subscription*** : i) In case of over subscription by the public, the Fund, at the discretion of the AMC and with consent from the SEC, may retain the oversubscribed amount in part or in full, subject to a maximum Fund size of Tk100 million. ii) If retention is made, the size of the Fund will be increased accordingly and all the allotment conditions will be applicable for the additional amount as well, on a proportionate basis.

As the public subscription was massively oversubscribed, the SEC on April 19, 2000 (vide letter no. SEC/REG /MF/GEN-61/2000/466) approved increase of the fund size to Tk70 million from TK.50 million as envisaged on the prospectus by retaining from public subscription.

#### **Rollover & Fresh Entitlement on Maturity :**

The Redemption Policy & Voting Rights as declared on the prospectus was – ***Redemption Policy*** : The life of the Fund is 5 years, although there are circumstances set out in the Trust Deed where the unit holders can extend the life of the Fund. It is the intention that the shareholders of the Fund will be fully redeemed at maturity. The policies pertaining to

redemption are described below: (a) if three-fourth majority of the shareholders do not decide otherwise at the closing meeting called for the purpose, the Trustee of the Fund will declare full redemption.  
**Rights of the Shares : (a) Voting rights:** Shareholders shall have the usual voting right in person or by proxy in a meeting held in connection with any proposal to amend the characteristics of the Fund or any other agenda of meetings called by the Trustee, in the circumstances delineated in the Trust Deed.

In this regard the risk associated with extension of the life of the Fund was also described on the prospectus as ;

**Risk Factor :** (h) If maturity of the Fund is extended by the shareholders at the closing meeting, investment in fixed income securities will be subject to reinvestment risk, i.e., the risk of non-availability of investment opportunity at the current rate at that time.  
(i) In case of extension of maturity of the Fund, the reinvestment risk of fixed income securities may adversely affect the current guarantee policy of the Fund.

At the terminal month of the initial 5-year tenure, the matter of calling an Annual General Meeting (AGM) of the Unitholders as per provisions of the prospectus was planned to determine the fate of the Fund. Among others, there was an option for redeeming the Fund as well as extending with various alternatives proposed as a 'Report & Recommendation to the Unitholders'. As the matter was referred to the SEC for guidance since it was for the first time in Bangladesh a general meeting of the Unitholders of any mutual fund was envisaged, the SEC declined to make any comment/observation and advised (letter no. SEC/Reg./G-61/part-6/2005/355 of April 27, 2005) that it is 'absolutely a matter to be considered by the Unitholders of the Fund'. Thereafter, the Unitholders at the AGM held on May 31, 2005 extended the life of the Fund by another 10 years (up to June 2015) and increased the fund size from Tk70 million to Tk140 million through issuance of fresh units at 1:1 ratio for existing Unitholders, akin to a right offer, through an unanimous resolution.

#### Stock/Bonus Issue :

The dividend policy of the Fund as disclosed on the prospectus was - **Dividend Policy :** ii) The AMC may from time to time declare and pay dividends to the shareholders as appear to the AMC to be appropriate and approved by the Trustee. vii) The AMC may from time to time pay to the shareholders interim dividends as in their judgment the financial position of the Fund may justify. ix) The AMC may, with sanction of Trustee and SEC, direct payment or satisfaction of any dividend wholly or in part by the distribution of specific assets, and in particular of paid up shares or debentures.

Since one of the listed mutual funds of the state-owned Investment Corporation of Bangladesh (ICB) was allowed by the SEC to declare stock-dividend (bonus units), the eligibility

of declaring such by privately managed funds were referred to the SEC and in reply the Commission (vide letter no. SEC/Rag/G-61/623 of September 23, 2007) gave 'consent to take appropriate decision in respect of declaring proposed dividends in accordance with the Dividend Policy stated in the approved prospectus of AIMS First Guaranteed Mutual Fund'. Thereafter, the Fund declared 20% stock and 10% bonus units for the year 2006-07 on September 27, 2007.

#### **Pakistan Premier Fund Limited (PAPAL) – Pakistan**

The closed-end fund was launched in January 2003 by Arif Habib Investments Limited. It is listed with the Karachi Stock Exchange. Apart from cash dividends, the fund declared bonus and rights offers in recent years as under :

2002-03 : Bonus 12.5%, Cash 12.5%, Right 50%  
2003-04 : Bonus 25%, Cash 50%  
2004-05 : Bonus 25%, Cash 15%  
2006-07 : Bonus 15%, Cash 25%

#### **Al Meezan Mutual Fund – Pakistan**

The *Sariah* compliant closed-end fund launched by Al Meezan Investment Management Limited was incorporated in July 1995 under Companies Ordinance 1984 of Pakistan and registered with the SECP under NBFC Rules 2003 in January 1996. For the year ending June 30, 2007 it declared 25% cash and 15% bonus shares for Unitholders.

#### **Franklin Templeton Capital Protection Oriented Fund (FTCPOF) – India**

Franklin Templeton Mutual Fund was established as a Trust on January 04, 1996 under the provisions of the Indian Trust Act 1882 and registered with the SEBI vide registration no. MF/026/96/8. As per Offer Document dated April 19, 2007 launching the subject close-end Scheme of the Fund, the Scheme would have a choice of 3-year or 5-year maturity plan, each also having both Growth and Annual Dividend Payout option. The Scheme also has some other unique features, suiting the need of investors. Highlights of the Listing, Dividend Distribution, Roll-Over and Switching Policy of the Close-end Scheme as per the referred Offer Document is as under :

**Listing :** *Currently, the Units of the Scheme are not listed on any Stock Exchange. The Trustee/AMC may, at its sole discretion, list the Units of the Scheme on one or more Stock Exchanges at a later date, after issuing an addendum to that effect.*

**Roll Over :** *The Trustee may, at its discretion, roll-over the Scheme upon maturity. The Scheme may be allowed to be rolled over if the purpose, period and other terms of the roll over and all other material details of the Scheme including the likely composition of assets immediately before the roll over, the net assets and net asset value of the Scheme, are disclosed to the Unitholders and a copy of the same has been filed with the SEBI.*

**Switching Facility :** *Investors who hold Units in any Open-end Schemes launched by the Franklin*

Templeton Mutual Fund and also investors who hold Units in any Close-end Scheme launched, may switch all or part of their holdings (free from any lock-in, lien or encumbrance) to the Scheme available for subscription under this Offer Document during the New Fund Offer (NFO) period of the Scheme.

**Dividends & Distribution :** Under the Growth Option, the returns to investors will be available in the form of capital appreciation. There will be no dividend declaration under the Growth Option. Instead the growth in NAV will reflect the appreciation of the value of investment. Under the Annual Dividend Option, the Trustee may, at their discretion, approve the distribution of returns to the investors in the form of dividends out of distributable profits, if any, available at the end of the year to the Unitholders.

### **ICICI Prudential Fusion Fund Series – III – India**

The Closed-Ended Diversified Equity Scheme of **ICICI Prudential Mutual Fund** with a maturity of 3 years was launched in January 2008. ICICI Prudential Mutual Fund (erstwhile Prudential ICICI Mutual Fund and formerly ICICI Mutual Fund) was set up under the provisions of the Indian Trusts Act, 1882 on August 25, 1993. The Fund was registered with SEBI vide Registration No.MF00393/6 of October 13, 1993. The Scheme had following features as published on the Offer Document/Prospectus :

**Subscription :** Being a Close-ended Scheme, units can be purchased during New Fund Offer (NFO) period only. The units can be subscribed at Face Value during NFO period.

**Listing :** The Units of the Scheme will not be listed on any exchange, for the present.

**Repurchase of Units:** The investors may redeem the units, before the maturity date. To provide liquidity to investors, the Fund proposes to provide repurchase facility at quarterly intervals on every 15th day from the end of each Quarter. The investors may redeem the units on the stipulated dates for redemption as mentioned in this offer document at NAV based prices, subject to the prevalent exit load provisions.

**Options :** There are two options available under the Scheme viz, Retail Option and Institutional Option. Both Options have a choice of Growth or Dividend sub-option. Both the options under the Scheme will have the same portfolio. Growth sub-option shall be the default sub-option. Dividend sub-option will have only dividend payout facility. The Trustees may at their discretion add one or more additional options under the Scheme.

**Growth Sub-Option :** Under this option the Scheme will not declare any dividends. The income earned by the Scheme will remain invested in the Scheme and will be reflected in the Net Asset Value.

**Dividend Sub-Option:** This option is suited for investors seeking income through dividends declared by the Scheme. The Trustee may at their discretion and subject to availability of distributable surplus, approve the distribution of dividends by the AMC out of the net surplus of the Scheme. To the extent the net surplus is not distributed, the same will remain invested in the Scheme and be reflected in the NAV. Dividend payout facility is only available under this option.

**Option to Switch :** Two options are available to the investor on the date of maturity viz. Redemption or switch-in to ICICI Prudential Fusion Fund Series-II. Investors who would like to switch-in to ICICI Prudential Fusion Fund Series-II will have to specifically opt for switch-in facility. If the investor does not select any option, then the redemption option will be the default option. The option to redeem/switch will be given in the application form of the Scheme.

### **CONCLUDING NOTE**

Mutual Funds play a very important role in the development of the capital market. The maturity of the market is also at times gauged on the share of collective investment schemes in the market capitalization. Over hundred years the global managed funds industry has been reckoned as one of the most dynamic and innovative investment vehicles for small and risk averse investors. Funds with different characteristics and attributes are being contemplated every now and then having different risk-return parameters and catering to the need to various investor segments. Globally mutual funds are investment of choice for retail as well as institutions due to its inherent benefit of diversification and active professional management. Mutual funds have a history of providing market stability and facilitating institutionalization of capital markets. Given the growth stage of the market, Bangladesh also cannot remain a far away isolated island. And indeed the history of the development of the local mutual fund industry testify that the investors already has been exposed and had a taste of modern diversified investment products with varying attributes. It may now move north in sustained pace only if the path is smoothened avoiding rolling back of the achievements gained through an arduous journey. At the end of the day the investors deserve the best. The best can be delivered only in knowledge based acclimatized dispersion.

**DISCLAIMER :** The research publication is an academic exercise based on empirical study of publicly available material and documents that do not intend to take side either way in any on-going debate on the subject matter nor does it propagate any view point or opinion or interpretation in any manner or context attributable to AIMS of Bangladesh Limited. The report is for information purposes only and should not be regarded as an offer to sell or as a solicitation of an offer to buy any financial product, any transaction, or as an official statement of AIMS of Bangladesh Limited. We also do not represent that this information is complete or accurate and it should not be relied upon as such.