# 2nd SUPPLEMENT

# TO THE

# OFFERING DOCUMENT OF

# FAYSAL BALANCED GROWTH FUND

# MANAGED BY

# FAYSAL ASSET MANAGEMENT COMPANY LIMITED

# DATED: JANUARY 2, 2013

**Second Supplement dated January 2, 2013 to the Offering Document of Faysal Balanced Growth Fund (FBGF) issued on April 14, 2004.**
**Managed by Faysal Asset Management Company Limited an Asset Management Company Licensed under the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003.**

The Faysal Balanced Growth Fund (the Fund/the Scheme/the Trust/the Unit Trust/FBGF) has been established in Karachi as an Open ended Balanced Scheme through a Trust Deed and amended through first and second supplemental Trust deeds dated June 22, 2005 and August 25, 2010 respectively, entered into between Faysal Asset Management Limited, the Management Company and Central Depository Company of Pakistan Limited, the Trustee and is authorized under the Non-Banking Finance Companies and Notified Entities Regulation, 2008 (the Regulation).

**Filing of the Offering Document**

The Management Company has filed a copy of the Second supplemental Offering Document signed by the Chief Executive along with the second supplemental trust deed with the SECP. Certified copies of these documents along with SECP's approvals in favor of supplemental Trust Deeds and supplemental Offering Documents can be inspected at the registered office of the Management Company or the place of business of the Trustee:

Effective from 2nd day of January 2013, the following Sections in the Offering Document are revised.

## (I) Amendments in Clause 2.1

2.1 **Investment Objectives**

The prime objective of the Fund is to provide investors an opportunity to invest through one simple transaction into a diverse pool of securities available in the market. The invested amount will be allocated between the equity market and fixed income securities including money market instruments. Maximum upto 70% of the total investment of the Fund will be allocated to the equity market securities. The mix of such equity market securities will includes investment in securities that offers opportunity for capital appreciation while other such securities will ensure comparatively higher or constant dividend yield. Minimum of 30% of the funds will be allocated to fixed income securities including money market instruments that are Authorized Investments. These instruments include Term Finance Certificates (TFCs), Government Securities, TDRs, Commercial Papers, MTS, Spread Transaction, Preference Shares. Certificate of Investments (COIs), SUKUK and Certificate of Musharikas (COMs), **Future Contracts(Equity/Debt) including equity linked Index Future contracts,** Options and other Derivatives excluding **Future** contracts(only for the purpose of hedging and after obtaining prior approval of the Commission, subject to the condition that exposure under Options and other Derivatives excluding **Future** Contracts shall not exceed 10% of the funds value at all times) and securities traded or to be traded in Over the Counter (OTC) Markets and other deposits in the bank and Non-Banking Finance Institutions, including short term maturity reverse repurchase transactions. Investments made by the Fund in the aforesaid equity securities and fixed income securities including money market instruments will be made either directly as an investor or as a participant in Pre-IPO/IPO issued directly or indirectly through brokers/arrangers. Provided however, if at any time, 70% of the total investment in the equity market possesses any unprecedented risk, or where it becomes in the interest of the Unitholders to reduce the investment in the equity market below of 70% of the total investment of the Fund at any given time, the Management Company may, at its discretion vary the ratio between the investments in the equity market and fixed income securities including money market instruments, without the need to amend this Offering Document.

**Future** contract**(Equity/Debt)** shall be used for investment purpose and to limit or hedge potential losses associated with stock markets and return/mark-up rates. This process is called "hedging". Future Contracts shall also be used for non-hedging purposes - to reduce transaction costs, achieve greater liquidity, create effective exposure to financial markets or increase speed and flexibility in making portfolio changes.

All investments shall be made within the limits prescribe in the Regulations or otherwise as may be specified by the Commission and for investments in offshore countries, investment shall be made within the limit prescribe by the State bank of Pakistan.

All positions in the **futures** contracts shall be subject to the single entity/sector limits as prescribed in Regulations as well as position limits stipulated in Schedule 4 of the Risk Management Regulations of Karachi Stock Exchange or any amendment issued by above mentioned authorities. In case of investment in equity linked Index **Future** contracts the Scheme shall follow the guidelines issued by SECP.

Exposure in **futures** contract **(Equity/Debt)** shall be marked to market on a daily basis as per requirement of the stock exchange on which it is listed. For the purpose of reporting to the commission exposure shall be calculated by converting the derivative position into equivalent position in the underlying security.

Maximum exposure of Scheme shall not at any time exceed as per defined criteria of SECP to curb any gearing / leverage by Scheme. For this purpose the preserved cash i.e the difference between the contract price and upfront margin shall be blocked in an earmarked account for settlement purposes and the management company along with Trustee shall ensure timely payment of settlement amount/margin calls on behalf of the Scheme within the time period stipulated by the exchange

Sale position in **futures** contract**(Equity/Debt)** without pre-existing interest shall be strictly prohibited and Spread transaction shall be accounted for in calculating exposure limits.

The Fund seeks to achieve the following benefits for the investors:

- To earn overall return for its investors in the form of capital gains, dividends and return on fixed income through investing in growth and dividend yielding stocks as well as fixed income securities including money market instruments, thereby allowing continuous growth in value as well as a return that is higher than income earned on bank deposits.

- Long-term growth in the value of the investments, aimed at surpassing not only the underlying inflation rate prevalent in Pakistan but also out-performing most other types of investment options;

- In order to manage risk associated with the capital markets yet ensuring that all opportunities for maximizing values for Unitholders are availed, our debt / equity distinction is as follows;

- To provide steady income stream for the fund, a minimum 30% of the fund value will be invested in fixed income securities including money market instruments for example TFCs, PTCs, COT, non-equity securities by whatsoever name called (both listed and non listed in the exchanges) including SPVs, COIs and COMs and other deposits in the bank and Non-Banking Finance Institutions including short term maturity reverse repurchase transactions **Future** Contracts including equity linked Index **Future** contracts, Options etc. (subject to the condition that exposure under Options and other Derivatives excluding **Future Contracts** shall not exceed 10% of the funds value at all times) which offer a reasonable return against an acceptable risk. For the said purpose, instruments with minimum investment grade will be bought while appropriate due diligence will be carried out for instruments with lower or no credit ratings.

- Mutual Funds are restricted to allocate not more than 25% of Net Asset Value to one sector and not more than 10% of Net Asset Value to one security or not more than 10% of the issued capital of the investee company.

## (II) Amendments in Clause 2.3.5

### 2.3.5 Exposure Limits to FBGF are as under

| Sr. | Description | Minimum Entity/Instrument Rating | Min- Maximum Exposure |
|---|---|---|---|
| 1 | Cash in bank accounts | AA- | 0-70% |
| 2 | Deposits of various tenors with Banks, DFIs and other depository institutions | AA- or specified by SECP | 0-70% |
| 3 | Listed Equity Securities | N/A | 30%-70% |
| 4 | Government Securities | N/A | 0%-70% |
| 5 | Debt Securities including TFC and SUKUKs | A- | 0%-70% |
| 6 | Long, medium and short term deposits with Commercial banks | AA- | 0%-70% |
| 7 | Commercial Papers and Money Market Placements | A- | 0-70% |
| 8 | Certificates Musharika Certificates, Certificate of Deposits (CoD), Certificate of Investments (COI), issued by financial institution. | AA- | 0-70% |
| 9 | Reverse Repo transaction against Government Securities or such securities allowed under the Regulation from time to time | AA- | 0%-70% |
| 10 | Margin Trading System or any other leveraged product/system approved by the Commission and Spread transactions. (Not more than 10% of the aforesaid MTS amount in any one scrip at the time of investment) | N/A | 0%-25% |

| | | | |
|---|---|---|---|
| 11 | Convertible & Non Convertible Preference shares issued by corporate/ financial institutions | A- | 0-70% |
| 12 | TDRs | AA- | 0-40% |
| | Warrants, options, other derivatives instruments subject to the prior approval of the commission. Investment in this asset class would be for the hedging purposes only and subject to such terms and conditions as approved by the Commission from time to time | N/A | 0%-30% |
| 13 | Future Contracts**(Equity/Debt)** including equity linked Index Future Contracts | N/A | 0%-70% |
| 14 | Investments Outside Pakistan The above or any other Investments available outside Pakistan. | N/A | 0%- 30% or as allowed by SECP / SBP |
| 15 | Any other securities or instruments that may be permitted or approved under the SECP Regulation or any other directive from time to time | A- | 0%-70% |

**The Management Company shall ensure timely compliance to manage derivative exposure effectively.**

2.3.5.1 where the Exposure of a Collective Investment Scheme exceeds the limits specified in Regulations because of corporate actions including taking up rights or bonus issue or due to market price increase or decrease in net assets the excess Exposure shall be regularized within three months of the breach of limits unless the said period of three months is extended by the Commission on an application by the Management Company.

## (III) Amendment in Clause 2.3.1(iii a)

Following statements shall be deleted

- Securities on Margin

## (IV) Amendment in Clause 2.6.1

**2.6 Risk Disclosure**

**Amendment in following section of clause 2.6.1**

- **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, 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.

**(V) Addition in Clause 2.6.3**

The following two paragraphs shall inserted in clause 2.6.3

FAML shall use **future** contracts as an investment tool to meet investment objective of the Scheme as well as hedging and risk management purpose. The FAML shall adopt adequate risk management system (daily VAR based mechanism) to reduce risk associated with **future** contracts.

The Scheme has maintained provisions against Workers' Welfare Fund liability to the tune of Rs. 4,513,166 till September 30, 2012, if the same were not made the NAV per unit / return of the Scheme would have been higher by Rs. 0.44 (0.69%). For details investors are advised to read financial Statement of Faysal Balanced Growth Fund.

## (VI) Amendment in Clause 14.5

14.5.8 **Future** contracts**(Equity/Debt)** including equity linked Index **Future** Contracts, Options and other derivatives (subject to the condition that exposure under Options and other Derivatives excluding **Future** Contracts shall not exceed 10% of the funds value at all times) and securities traded or to be traded Over-The-Counter (OTC) Markets.

## (VII) Addition of clause 14.28

14.28 **“Futures contract”** – a futures contract is a contractual agreement to purchase or sell a commodity or financial instrument at a pre-determined price in the future. Futures contracts detail the quality and quantity of the underlying asset; they are standardized to facilitate trading on a futures exchange. Some futures contracts may call for physical delivery of the asset, while others are settled in cash.

## (VIII) Clause 14.28 to onward are renumbered accordingly