

GUIDANCE NOTE 6

Date issued: 30 August 2005

Issued Pursuant to the Guidelines on Unit Trust Funds

- Introduction of new specialised funds

Introduction

1. This Guidance Note is published to notify a new policy in relation to specialised funds, currently stipulated under Schedule C of the Guidelines on Unit Trust Funds (Guidelines).
2. Nothing contained herein should be construed as prejudicing the powers of the Securities Commission under the Guidelines.

Policy Amendment

1. Under this Guidance Note, 3 new specialised funds are introduced i.e. Fund-of-Funds, Feeder Fund and Wholesale Fund.
2. The rules and guidelines pertaining to the new specialised funds are attached herein this Guidance Note and shall form as Appendices VI, VII and VIII of Schedule C of the Guidelines.

SCHEDULE C – Appendix VI

FUND-OF-FUNDS

For the purpose of Appendix VI, a *Fund-of-Funds* is defined as a unit trust fund that invests all its assets in other collective investment schemes.

1.0 General

- (1) Only funds that comply with the restrictions and limits of this appendix can hold themselves out as Fund-of-Funds.
- (2) For the purpose of this appendix, the permitted investments of a Fund-of-Funds are units in other collective investment schemes. The investments of these collective investment schemes must be in line with the general investment principles of these Guidelines.
- (3) A Fund-of Funds should invest only in collective investment schemes that are regulated and registered/authorised/approved, as the case may be, by the relevant regulatory authorities in their home jurisdictions.
- (4) A Fund-of-Funds may not invest in:-
 - (a) a Fund-of-Funds;
 - (b) a Feeder Fund; and
 - (c) any sub-fund of an umbrella scheme which is a Fund-of-Funds or a Feeder Fund.
- (5) Where a Fund-of-Funds invests in sub-funds of an umbrella scheme, the sub-funds of the umbrella scheme are to be treated as if they were separate collective investment schemes.
- (6) There must not be any cross-holding between the Fund-of-Funds and its sub-funds, or between the sub-funds of Fund-of-Funds, where the funds are managed and administered by the same management company, or where the sub-funds are managed by and administered by any party related to the management company or any delegate thereof.

2.0 Spread: General

- (1) A Fund-of-Funds must invest in at least 5 collective investment schemes at all times.
- (2) Not more than 30% of a Fund-of-Funds' NAV shall be invested in units of a collective investment scheme.

3.0 Fees and Charges Restriction

- (1) The management fee charged to the Fund-of-Funds shall commensurate with the degree of investment strategies and techniques employed by the fund manager to achieve the stated objective.
- (2) Where the Fund-of-Funds invests in funds (target funds) managed by the **same management company**,
 - (a) all initial charges on the target funds must be waived; and
 - (b) management fee must only be charged once, either at the Fund-of-Funds or target funds.

SCHEDULE C – Appendix VII

FEEDER FUND

For the purpose of Appendix VII, a *Feeder Fund* is a unit trust fund that invests all its assets in **one** collective investment scheme.

1.0 General

- (1) Only funds that comply with the restrictions and limits of this appendix can hold themselves out as Feeder Fund.
- (2) For the purpose of this appendix, the permitted investment of a Feeder Fund is units in another collective investment scheme. The investment of this collective investment scheme must be in line with the general investment principles of these Guidelines.
- (3) A Feeder Fund should invest only in a collective investment scheme that is:-
 - (a) regulated and registered/authorised/approved, as the case may be, by the relevant regulatory authority in its home jurisdictions; and
 - (b) managed by another management company/fund manager.
- (4) A Feeder Fund may not invest in:-
 - (a) a Fund-of-Funds;
 - (b) a Feeder Fund; and
 - (c) any sub-fund of an umbrella scheme which is a Fund-of-Funds or a Feeder Fund.
- (5) Where a Feeder Fund invests in a sub-fund of an umbrella scheme, the sub-fund of the umbrella scheme is to be treated as if it were a separate collective investment scheme.

2.0 Fees and Charges

- (1) The management fee charged to the Feeder Fund shall commensurate with the degree of investment strategies and techniques employed by the fund manager to achieve the stated objective.

SCHEDULE C – Appendix VIII

WHOLESALE FUND

For the purpose of Appendix VIII, a *Wholesale Fund* is a unit trust fund that shall only be sold or marketed to sophisticated investors, be it individuals or corporations as prescribed under paragraph 4, 10 and 11 of Schedule 2 and 3, Securities Commission Act 1993 (SCA).

1.0 General

- (1) Only funds that comply with the restrictions and limits of this appendix can hold themselves out as Wholesale Fund.
- (2) A Wholesale Fund is exempted from the requirement of Clause 11.07(3) of the Guidelines. The management company should decide on the redemption period and it must be clearly disclosed in the information memorandum.
- (3) Pursuant to Section 38(1), 39(1) and 40(1) of the SCA, a prospectus is not required to be registered with the SC for a Wholesale Fund. However, as required under Section 38(3) and 39(3), an information memorandum must be issued to investors.

2.0 Spread: General

- (1) A Wholesale Fund is not subject to investment limits and restrictions as specified under Clause 10.03, 10.04, 10.05, 10.06, 10.07, 10.08, and 10.09 of Chapter 10 and any appendices (other than this Appendix VIII) of Schedule C of the Guidelines. However, the fund manager must determine prudential limits and restrictions for the fund and disclose these limits in the information memorandum.

3.0 Minimum Content of the Information Memorandum

- (1) The following requirement is indicative of the minimum information necessary for inclusion in an information memorandum. The management company however, may disclose any other information that is material and important, which investors and/or professional advisers would reasonably require and reasonably expect to find in an information memorandum, for the purpose of making an informed assessment.

(a) ***Responsibility Statement and Statements of Disclaimer***

- (i) There should be responsibility statements and statements of disclaimer in the inside cover/first page of the information memorandum as follows -

“This information memorandum has been seen and approved by the directors of the management company and they collectively and individually accept full responsibility for the accuracy of all information contained herein and confirm, having made all enquiries which are reasonable in the circumstances, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement herein misleading”

“The Securities Commission has approved the issue, offer or invitation in respect of the Fund(s), the subject of this information memorandum, and that the approval shall not be taken to indicate that the Securities Commission recommends the investment”

“The Securities Commission shall not be liable for any non-disclosure on the part of the management company and takes no responsibility for the contents of the information memorandum, make no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from, or in reliance upon the whole or any part of the contents of this information memorandum. INVESTORS SHOULD RELY ON THEIR OWN EVALUATION TO ASSESS THE MERITS AND RISKS OF THE INVESTMENT. IN CONSIDERING THE INVESTMENT, INVESTORS WHO ARE IN DOUBT AS TO THE ACTION TO BE

TAKEN SHOULD CONSULT THEIR PROFESSIONAL ADVISERS IMMEDIATELY."

- (ii) In addition, an additional statement as follows should also be stated -

"No units will be issued or sold on the basis of this information memorandum later than one year after the date of this information memorandum"

(b) ***Key Data / Information Summary***

A summary of the key features of the fund, which can assist investors in making an assessment of the fund being offered for investment.

(c) ***The Fund***

- (i) A general description of the fund, including its investment objective, the investment strategies and policies to achieve the stated objectives, which may include types of investments to be made by the fund;
- (ii) Risks associated with the fund;
- (iii) The fund's permitted investments and prudential limits, spread, concentration, exposure, etc for the various types of investments;
- (iv) The management company's policy with respect to the valuation of assets, valuation point, pricing of units and pricing frequency;
- (v) The management company's policy with respect to rebates and soft commission;
- (vi) The fund's performance and comparison with the selected benchmarks;
- (vii) The distribution policy of the fund; and
- (viii) Redemption period adopted by the fund.

(d) ***Fees, Charges and Expenses***

A description of fees, charges and expenses directly and indirectly incurred when investing in the fund.

(e) ***Rights and liabilities***

A description of the rights and liabilities of the unit holders.

(f) ***The Management and Administration of the Fund***

- (i) Corporate information of the management company;
- (ii) Information on the key personnel, and full details of the experience of the key personnel;
- (iii) Information on the designated person responsible for investment management of the fund, highlighting the academic and/or professional qualifications, relevant experience of the designated person in investment management, as well as experience and experience of the designated person with respect to investments in the specific types of securities/instruments that the fund intends to invest in;
- (iv) Functions, duties and responsibilities of the management company; and
- (iv) Information on any delegate of the management company of which it should include (i), (ii), (iii) and (iv) above (where applicable).

(g) ***Trustee of the Fund***

- (i) Corporate information;
- (ii) Key personnel;
- (iii) Duties and responsibility of trustee; and
- (v) Information on any delegate of the trustee.

(h) ***Taxation of the Fund***

The information memorandum should contain a report (for existing fund) or opinion (for new funds) from the fund's tax adviser.

(i) ***Accountant's Report***

The information memorandum should contain an accountant's report dated not more than six months prior to the date of the information memorandum.

(j) ***Consents***

Where there is an inclusion of a statement, other than a statement which is an extract of an official statement or any other statement as may be specified by the SC to be made by any person or to be based on a statement made by such person, the information memorandum must include a statement that the person has given and has not withdrawn the consent.

(k) ***Exemptions/Variations Granted by the Securities Commission***

There must be a disclosure of all exemptions and variations from any relevant securities laws or guidelines granted to the management company, trustee and/or the Fund by the SC.

(l) ***Directors' Declaration***

There shall be a directors' declaration as follows:

"This information memorandum has been seen and approved by the directors of the management company and they collectively and individually accept full responsibility for the accuracy of all information contained herein and confirm having made all enquiries which are responsible in the circumstances, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement herein misleading."

4.0 Submissions to the Securities Commission

- (1) Pursuant to Section 38(4) and 39(4) of the Securities Commission Act 1993, a copy of an information memorandum must be deposited with the Securities Commission within 7 days after it is first issued.