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3rd Supplementary Offering Document of Meezan Financial Planning Fund of Funds (MFPF)

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SECP has approved this Supplementary Offering Document vide its letter No: SCD/AMCW/MFPF/177/2014 dated December 5, 2014, under regulation 54 of NBFC Regulations 2008. It must be clearly understood, that in giving this approval, SECP does not take any responsibility of the financial soundness of the Plan nor for the accuracy of any statement made in this Supplementary Offering Document.

1. Introduction

Under MFPF, Al Meezan shall provide a new allocation plan, namely Meezan Capital Preservation Plan – II (MCPP-II)

This new allocation plan shall provide investors a means to earn potentially high returns while aiming to preserve their initial principal investment. This allocation plan shall utilize the dynamic asset allocation strategy of Constant Proportion Portfolio Insurance (CPPI) and allocate to Fixed Income/Money Market and Equity Mutual Funds in the following indicative percentages:

	Indicative Minimum percentage allocation invested in Collective Investment Scheme(s)	
Name of Allocation Plan	**Equity Scheme**	**Fixed Income/Money Market Scheme**
Meezan Capital Preservation Allocation Plan –II (MCPP-II)	0-100%	0-100%

2. Investment Objective of – Meezan Capital Preservation Plan-II (MCPP-II)

The objective of Meezan Capital Preservation Plan-I (MCPP-II) is to earn a potentially high return through dynamic asset allocation between Shariah Compliant Equities and Shariah Compliant Income/Money Market based Collective Investment Schemes, while providing capital preservation upon maturity of the allocation plan.

3. Benchmark:

Weighted average return of KMI-30 Index, 6 months average deposit rates of three (3) A rated Scheduled Islamic Banks or Islamic windows of Conventional Banks as selected by MUFAP, Six months PKISRV Rates and three (3) months average deposit rates of three (3) AA rated Islamic Banks or Islamic windows of conventional banks as selected by MUFAP based on the actual proportion of investment in Equity, Income / Money Market schemes made by the allocation Plan.[1]

[1] **Amended Through First Supplemental dated October 20, 2016**

4. Investment Policy

4.1. The allocation plan will be dynamically allocated between the Equity Component and Fixed Income/Money Market Component at pre-defined Intervals by using the Constant Proportion Portfolio Insurance (CPPI) Methodology.

4.2. The Equity component shall be invested in Islamic Equity and Islamic Index Funds managed by Al Meezan and also other Asset Management Companies. The Fixed Income/Money Market/Capital Preservation segment shall be invested in Islamic Money Market and Islamic Fixed Income Scheme(s) managed by Al Meezan or any other Asset Management Company as well as in Cash at Bank Accounts of Islamic Banks and licensed Islamic Banking windows of conventional Banks. Investment in Fixed Income Scheme (s) shall only be made in the Islamic Sovereign Income Fund category.

4.3. Initially, the Management Company may seek to invest in the following Collective Investment Schemes:

Equity Scheme (s)	**Fixed Income Scheme(s)**
Meezan Islamic Fund (MIF)	Meezan Sovereign Fund (MSF)

4.4. The Management Company may invest or disinvest in/ from Collective Investment Schemes (CIS) mentioned in clause 4.3 above. The Management Company may also invest in any other Collective Investment Schemes available to it, as categorized according to SECP Circular 7 of 2009 in either of the above mentioned asset classes.

4.5. The dynamic asset allocation is aimed at providing higher returns through participation in Shariah Compliant Equity CIS while aiming to preserve the downside risk of principal erosion through participation in Shariah Compliant Income/Money Market CIS.

4.6. The allocation between the Equity Component and the Fixed Income/Money Market Component will vary depending upon changes in the value of the allocation plan. As per the CPPI Methodology, allocation to Equity Component will generally increase in the case where equity markets are rising to provide higher returns, while allocation to the Fixed Income/Money Market Component will generally increase if the equity markets decline to provide downside protection.

4.7. The initial asset allocation of the allocation plan, as per the CPPI methodology, is expected to be as follows:

Equity Component	**Fixed Income/ Money Market Component**
0% - 50%	50% - 100%

4.8. The Management Company, based on the allocation plan's performance and outlook of the market may at its discretion lock-in certain percentage of the profits (if any) from the Equity Component by realizing profits. The profits realized in this manner, shall be used by increasing the allocation to the Fixed Income/Money Market Component.

4.9. If on any Business Day, or in case of a non-Business Day, the next immediate Business day, the value of the allocation plan falls to a level that it triggers the Bond Event, the entire Net Assets of this allocation plan will be allocated to the Fixed Income/ Money Market/ Capital Preservation Segment, within 3 Business Days following the date of occurrence of the aforementioned event(s), so as to ensure capital preservation to those Unit Holders who have held their investments till completion of the Initial Maturity of the allocation plan.

4.10. Subsequent to occurrence of the event(s) specified in Clause 4.9, there shall be no further allocation to the Equity Component till the remaining Initial Maturity of this allocation plan.

5. Changes in Investment Policy

The investment policy will be governed by directives of the Shariah Advisor and Regulations and/or SECP directives. Any fundamental change in the Investment Policy will be implemented only after obtaining prior approval from Shariah Advisor, SECP and giving 90 days prior notice to the Unit Holders as specified in the Regulations.

6. Capital Preservation

6.1. Capital Preservation is provided through the investment structure of the allocation plan and CPPI methodology and not through any undertaking or guarantee by the Management Company or the Trustee.

6.2. Capital Preservation means that the net realizable value of investment at the maturity of the allocation plan should not fall below the principal investment paid by the Unit Holder subject to clause 6.1 above, only if the investment is held for a minimum duration as specified in the basic allocation plan features.

6.3. The Principal preservation may not be available before Initial Maturity of the allocation plan.

6.4. Capital Preservation will not be valid if Units of the allocation plan are redeemed before the completion of the Initial Maturity of this allocation plan.

6.5. The allocation plan shall be closed for new subscriptions after the close of the subscription period.

6.6. The allocation plan shall be closed from time to time and may be re-opened as and when determined by the Management Company with prior approval of the Commission under intimation to the Trustee and by providing notice to investors in order to protect the interests of the Unit Holders of the allocation plan. The Management Company shall comply with the terms of approval specified by the Commission, to protect the interest of Unit Holders.

6.7. The capital of the allocation plan is protected only in terms of the base currency i.e. the Pakistani Rupee. In addition, the capital preservation is only valid in terms of the current tax and legal environment of Pakistan and is subject to force majeure factors such as bankruptcy of an investment grade or above rated institution.

7. Basic features of –MCPP-II

Term/Duration of the allocation plan: Perpetual. However, the Initial Maturity of the allocation plan shall be two (2) years from the close of the subscription period.

Subscription Period: The allocation plan will be open for subscription from 15th December 2014 to 25th March 2015, both days inclusive. Subscription for the allocation plan is for limited time period only. Only Class "B" Units shall be issued to investors at the Offer Price, during the subscription period. The units shall be subject to a Front-end and a Back-end Load/Contingent Load. Bonus units issued shall be only Growth units.

Front-end load: 0-3%
Back-End Load: nil
Early Exit fee: a 5% Contingent Load shall be applicable only in case of redemption before the completion of the Initial Maturity of the allocation plan.

8. Rebalancing and Re-allocation

Rebalancing and re-allocation as mentioned in Clause of 3.1. of the Offering Document MFPF will not apply to MCPP-II. Rebalancing of MCPP-II shall be based on the CPPI methodology. Subsequent to the initial asset allocation, the dynamic allocation mechanism will reallocate the allocation plan's Net Assets, at pre-defined intervals, in such a manner that if on a given business day the Proportion of Equity allocation of the allocation plan is X% (ranging between 0% to 100%) then the Proportion of Income/Money Market allocation will be (100% - X %).

9. Bank Accounts

Clause 4.10. of the Offering Document of MFPF pertaining to 'Bank Accounts' apply to MCPP –I except for:

Clause 4.10.1 which shall apply for MCPP-II as under:

The Trustee, at the request of the Management Company, shall open Bank Accounts titled **"CDC -Trustee Meezan Financial Planning Fund of Funds – Meezan Capital Preservation Plan – II"** or any other account as deemed necessary, with abbreviated/facilitated titles at designated Bank(s) in Pakistan, with rating as per the Rules, the Regulations and directives issued by the Commission from time to time.

Clause 4.10.4 which shall apply for MCPP-II as under:

The Trustee shall, if requested by the Management Company open Bank Accounts titled **"CDC -Trustee Meezan Financial Planning Fund of Funds – Meezan Capital Preservation Plan – II",** or any other account as deemed necessary with abbreviated/facilitated titles in offshore countries where the Investments are made on account of the plan, if such Investments necessitate opening and operation of Bank Accounts by the Trustee. For this purpose, the Trustee shall be deemed to be authorized to sign if required and submit the prescribed account opening forms of such Banks, including custodial/sub-custodial services accounts and brokerage accounts with such Banks, custodians, sub-custodians, and brokers, as may be required to be appointed for offshore Investments of the plan. The opening, operation and maintenance of such Bank Accounts, custodial/sub-custodial and brokerage services accounts in offshore countries shall always be subject to the approval of the State Bank of Pakistan and the exchange control regulations, as well as any directives of the State Bank of Pakistan and/or the SECP.

10. Purchase of Units

Clause 5.6. of the Offering Document of MFPF pertaining to 'Purchase Procedure-Issue of Units' apply to MCPP-II except for Clause 5.6.2 (h) which shall apply as under:

Application for Purchase of Units shall be made by completing the prescribed Investment Application Form and submitting it to the authorized branches of the Distributor or to the Management Company together with the payment by cheque, bank draft, pay order or online transfer as the case may be in favor of Trustee Bank Account and crossed "Account Payee only" as specified below;

- Demand draft or Pay order in favor of **"CDC -Trustee Meezan Financial Planning Fund of Funds – Meezan Capital Preservation Plan –II"**
- Online transfer to Bank Account(s) of **"CDC -Trustee Meezan Financial Planning Fund of Funds – Meezan Capital Preservation Plan – II"**
- Cheque (account payee only) marked in favor of **"CDC -Trustee Meezan Financial Planning Fund of Funds – Meezan Capital Preservation Plan – II"**

10. Risk Control in the Investment Process

(a) The Management Company shall ensure that effective risk control measures are in place for the protection of the Unit Holders' interests.

(b) The objective of the risk control process is to endeavor to monitor and manage the various types of risks, including market risks, credit risks and operational risks, with a view to achieving the investment objective of the allocation plan.

(c) Exposure to the Equity Component shall be determined by a Multiplier, which shall be selected based on the Management Company's outlook on the economy, the equity market and any other factor considered important by the Management Company towards effective discharge of its duties under the Regulations and this Supplementary Offering Document.

(d) Based on a change in factors mentioned above, the Management Company may, at its discretion, change the Multiplier at a later date.

11. Risk Disclosure

Investors must realize that all investments in mutual funds and securities are subject to market risks. Our target return / dividend range cannot be guaranteed and it should be clearly understood that the portfolio of the allocation plan is subject to market price fluctuations and other risks inherent in all such investments. The risks emanate from various factors that as mentioned in include, but are not limited to:

(1) **Price Risk -** The price risk is defined as when the value of the Fund, due to its holdings in such securities rises and falls as a result of change in profit rates.

(2) **Liquidity Risk –** Liquidity risk is the possibility of deterioration in the price of a security in the Fund when it is offered for sale in the secondary market.

(3) **Settlement Risk –** At times, the Fund may encounter settlement risk in purchasing / investing and maturing / selling its investments which may affect the Fund's performance etc.

(4) **Reinvestment Rate Risk –**In a declining profit rate economic environment, there is a risk that maturing securities or coupon payments will be reinvested at lower rates, which shall reduce the return of the Fund compared to return earned in the preceding quarters.

(5) **Redemption Risk -** There may be special circumstances in which the redemption of Units may be suspended or the redemption payment may not occur within six working days of receiving a request for redemption from the investor.

(6) Plan Specific Risks

(a) Capital preservation will not be valid if Units of the allocation plan are redeemed before its Initial Maturity

(b) There exists the risk that in case of a Bond Event there is no risk free CIS available for the allocation plan to invest in that offers the same yield as required for capital preservation at maturity.

(c) The performance of the allocation plan may be affected by changes in risk associated with trading volumes, liquidity and settlement systems in equity and debt markets.

(d) Unit Holders are not being offered any guaranteed returns.

(e) The CPPI Methodology shall be used for capital preservation. In the event the methodology does not accurately evaluate and determine a suitable asset allocation pattern or the structure of portfolio, this may impact the ability of the allocation plan to provide capital preservation upon its Initial Maturity.

(f) The allocation plan, in its endeavor to seek capital preservation, may allocate the entire portfolio to underlying investments in the Fixed Income/Money Market Component and Units of the allocation plan may remain invested in such investments for the entire/remaining tenure of the allocation plan without any participation in the equity component.

(g) At times of high volatility in the equity markets or any other circumstances, it may not be possible to carry out the portfolio rebalancing. In such a case, the reallocation may take place on the next business day or on a business day as deemed appropriate by the Management Company. Such circumstances may affect the allocation plan's ability to seek capital preservation.

(h) As the allocation of portfolio changes from Equity to full Fixed Income/Money Market Component consequent to steep fall in equity markets, there may be no participation in subsequent upward movement in the equity component while the allocation plan remains invested entirely in the Fixed Income/Money Market component.

(i) If the allocation plan for any reasons as determined by the Management Company is terminated, the NAV of the allocation plan will be subject to fluctuations in its asset value. The Net Asset Value, in this case, may be lower or higher than the Initial Investment Value. The Management Company will refund investors their investment in the allocation plan based on the NAV per Unit after deducting bank and administrative charges (if any). Capital preservation in this case might not be valid. There may be times when a portion of the investment portfolio of the allocation plan is not compliant either with the investment policy or the minimum investment criteria of the assigned 'category'. This non-compliance may be due to various reasons including, adverse market conditions, liquidity constraints or investment – specific issues. Investors are advised to study the latest Fund Manager Report specially portfolio composition and financial statements of the Scheme to determine what percentage of the assets of the Scheme, if any, is not in compliance with the minimum investment criteria of the assigned category. The latest monthly Fund Manager Report as per the format prescribed by Mutual Funds Association of Pakistan (MUFAP) and financial statements of the Scheme are available on the website of the Management Company and can be obtained by calling / writing to the Management Company.

12. Warning and Disclaimer

(a) Warning

i. If you are in any doubt about the contents of this Supplementary Offering Document, you should consult your bank manager, legal advisor, or other financial advisor. The price of the Units of this allocation plan and the income of this allocation plan (from which distributions to Unit Holders is made) may increase or decrease.

ii. Investment in this allocation plan is suitable for investors who have the ability to take the risks associated with financial market investments. Capital invested in the financial markets could in extreme circumstances lose its entire value. The historical performance of this allocation plan, other Funds managed by the Management Company, the financial markets, or that of any one security or transaction included in the allocation plan's portfolio will not necessarily indicate future performance.

(b) Disclaimer

i. The units of the allocation are not bank deposits and are neither issued by, insured by, obligation of, nor otherwise supported by SECP, any Government Agency, Trustee (except to the extent specifically stated in this Supplementary Offering Document) or any of the shareholders of the Management Company or any other bank or financial institution. The portfolio of the allocation plan is subject to market risks and risks inherent in all such investments.

ii. The allocation plan's target return/ dividend range cannot be guaranteed. The allocation plan's unit price is neither guaranteed nor administered/ managed; it is based on the NAV that may go up or down depending upon the factors and forces affecting the capital markets and interest rates.

13. Takaful

The Management Company may provide Takaful coverage to MCPP-II investors after seeking consent from the Trustee and approval from the Commission and Shariah Advisor. Terms and Conditions of Takaful coverage shall be posted on Al Meezan's website.

Definitions:

"Bond Event" means a trigger point, whereby allocation plan's Net Assets is about to hit or actually hits the Bond Floor, which if reached will cause the allocation plan's Net Assets to be invested hundred percent (100%) in Fixed Income/ Money Market Component till the remaining Initial Maturity of the allocation plan. From thereon, there shall be no further exposure in the Equity Component of the allocation plan.

"Bond Floor" means the present value of the Initial allocation plan size (adjusted for redemptions, if any, during the term of the allocation plan and inclusive of any Front-end Load). It can be defined as the minimum value the allocation plan should have on a given day, to be able to provide capital preservation of the Initial Investment Value, if investments are held till completion of the duration of allocation plan. The Bond Floor value shall be calculated using yield of any authorized investment(s) from the Fixed Income/ Money Market Component of the allocation plan, that potentially yields a return higher than or at least equal to the yield required to provide capital preservation to the Unit Holders, subject to clause 5.1 at completion of the Initial Maturity of allocation plan.

"CPPI Methodology" is an internationally recognized, dynamic asset allocation methodology comprising of a versatile and flexible framework that allocates the allocation plan's Net Assets between Equity and Debt instruments in a way that the exposure to equity is increased as allocation plan's Net Assets increases and reduced as allocation plan's Net Assets declines, while simultaneously aiming to provide capital preservation at completion of the duration of the allocation plan.

"Contingent Load" means a Load payable by the Unit Holder of this Allocation Plan, which will be applicable only in case of redemption of units before the completion of the Initial Maturity of this Allocation Plan. Any Contingent Load received will form part of the Fund Property.

"Initial Maturity" means two (2) years, starting from the day following the close of initial subscription period. After the end of the Initial Maturity the Management Company may announce a subsequent Initial Maturity for certain duration, to commence from the day following the close of a subsequent Initial Period. Existing Unit Holders however, shall have the option to either remain invested in the allocation plan or exit the allocation plan through Redemption of Units, without any applicable Back End Load/ Contingent Load, only after end of Initial Maturity and prior to commencement of the subsequent subscription period.

"Multiplier" is a measure of risk applied to the Plan's Net Assets, to determine the amount of Net Assets to be allocated to the Equity Component. A higher Multiplier means greater allocation to Equity Component; whereas a lower Multiplier means greater allocation to the Income/Money market Component. The Multiplier value usually ranges from (1) one to (5) five. The Management Company may, at its discretion, change the Multiplier from time to time, based on the market conditions.

"Takaful" means Shariah-compliant insurance coverage, provided by Takaful Company for the benefit of the investors.