



First Capital

**FIRST CAPITAL EQUITY FUND**  
**EXPLANATORY MEMORANDUM**

Dated 07<sup>th</sup> November 2019

Managers: FIRST CAPITAL ASSET MANAGEMENT LIMITED

## IMPORTANT

The following memorandum is issued to provide a general overview of the operations of the **FIRST CAPITAL EQUITY FUND (FCEF)**, an open-ended Unit Trust of investing its Unit holder's Funds in Equity and fixed income securities.

FCEF is a licensed Unit Trust and approved by the Securities and Exchange Commission of Sri Lanka (SEC) under the Securities and Exchange Commission Act No. 36 of 1987 and its subsequent amendments.

This Memorandum does not constitute an offer or solicitation to anyone in any jurisdiction in which such offer or solicitation is not authorized or to any person to whom it is unlawful to make such offer or solicitation and may be used only in connection with this offering of securities to which it relates by distributors as contemplated herein.

The operations of FCEF will be carried out solely based on the information contained in this Explanatory Memorandum and the documents referred herein. The Unit Holders are thus advised of any information or representation given or made by any person or by any other documents, which are not contained herein, should be deemed as unauthorized and accordingly not be relied, accepted or acted upon.

**IMPORTANT: READ AND RETAIN THIS MEMORANDUM FOR FUTURE REFERENCE. IF YOU ARE IN ANY DOUBT ABOUT THE CONTENTS OF THIS EXPLANATORY MEMORANDUM YOU SHOULD CONSULT YOUR ATTORNEY AT LAW, ACCOUNTANT, FUND MANAGER OR OTHER FINANCIAL ADVISORS.**

**THE PRICES OF UNITS AND INCOME DERIVED FROM INVESTMENTS IN UNITS MAY INCREASE OR DECREASE FROM TIME TO TIME DUE TO MOVEMENTS OF MARKET CONDITIONS.**

All inquiries about the FIRST CAPITAL EQUITY FUND should be directed to:

First Capital Asset Management Limited  
2, Deal Place  
Colombo 3  
Sri Lanka  
[www.firstcapital.lk](http://www.firstcapital.lk)

Direct : +94 112 639 898  
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## **1. INTRODUCTION TO THE FUND**

### **1.1 Introduction**

The FCEF is as an “Open-Ended Unit Trust” where the investments made by Unit Holders are invested in a portfolio of Fixed Income and Equity Securities qualifying under the Unit Trust Code, 2011. The FCEF is licensed by the Securities and Exchange Commission of Sri Lanka (SEC) to issue Units to the public on an ongoing basis.

### **1.2 Corporate Information**

#### **1.2.1 Fund Manager**

First Capital Asset Management Limited  
No. 2, Deal Place, Colombo 3

#### **1.2.2 Trustee and Custodian**

Bank of Ceylon  
No 1, 'BOC Square' Bank of Ceylon Mawatha, Colombo 1

#### **1.2.3 Registrars**

KHL Corporate Services Limited  
No. 2, Deal Place, Colombo 3

#### **1.2.4 Auditors**

M/s. SJMS Associates  
Chartered Accountants  
First Floor, Mannaperuma Building  
No. 228, Galle Road, Colombo 4

#### **1.2.5 Bankers**

Bank of Ceylon  
No 1, 'BOC Square' Bank of Ceylon Mawatha, Colombo 1

#### **1.2.6 Lawyers**

M/s. Nithya Partners  
Attorneys-at-Law  
No. 97A, Galle Road, Colombo 3

#### **1.2.7 Tax Advisors**

M/s. Amarasekera and Company  
Chartered Accountants  
No. 12, Rotunda Gardens, Colombo 3



### 1.3 Managing Company

#### First Capital Asset Management Limited

First Capital Asset Management Limited (FCAM) was formed in 2002 as an Investment Manager/ a Managing Company of a unit trust, licensed by the Securities and Exchange Commission of Sri Lanka (SEC).

Unit Trust shall be managed by managing company in accordance with the provisions of the Securities and Exchange Commission of Sri Lanka Act (No 36 of 1987), the provisions of Unit Trust Code 2011, Trust Deed, the latest published Explanatory Memorandum of such managing company and the directives issued by the securities and Exchange Commission of Sri Lanka from time to time.

As part of the First Capital Group which has high visibility and understanding of the financial markets, the Company is able to avail clients of investment options which would otherwise not be available to them. In doing so, First Capital Asset Management Limited secures significantly higher returns on funds entrusted to them for management.

First Capital Group comprises of Six (6) subsidiary companies as listed below.

1. First Capital Asset Management Limited
2. First Capital Limited – Debt Structuring, Placements and Corporate Finance Functions.
3. First Capital Treasuries PLC – Primary Dealer in government securities appointed by the Central Bank of Sri Lanka.
4. First Capital Markets Limited – Margin Provider licensed by the SEC.
5. First Capital Equities Private Limited– Licensed Stockbroker licensed by the SEC.
6. First Capital Trustee Services (Private) Limited – engaged with Trustee Services for asset backed securitizations and listed debentures

## **1.4 Trustee**

### **Bank of Ceylon**

The Bank of Ceylon is the leading Commercial Bank in Sri Lanka owned by the Government of Sri Lanka. The Bank is firmly entrenched as Sri Lanka's premier financial services organization offering a broad range of services consists of commercial banking, trade finance, development financing, mortgage financing, lease financing, investment banking, corporate financing, dealing in Government securities, pawn brokering, credit card facilities, off-shore banking, foreign currency operations and other financial services through a network of 1,714 Direct Customer Service Points. BOC diversified its operations in the United Kingdom by upgrading its first overseas branch, London branch to a fully-fledged bank operating as a subsidiary of BOC named Bank of Ceylon UK Ltd. BOC operates in 03 overseas locations, namely, Maldives, Chennai and Seychelles.

The Bank has 10 Subsidiaries and 04 Associate Companies in its group structure. The Bank is rated AA+ (lka) by Fitch Rating and are named among top 1000 world banks by the Bankers Magazine UK.

The Trustee's responsibilities are mainly to exercise due diligence and vigilance over the Fund with the objective of safeguarding the interests of the Unit Holders. The Trustee is the legal owner of the Fund's assets and will hold them on behalf of the Unit Holders. It is also responsible for ensuring that the Manager performs its obligations of all payments on behalf of the Fund and for appointing the Fund's auditors

## **1.5 Investment Objectives and Strategies**

The Fund's investment objective is to maximize, consistent with prudent investment management, a combination of capital appreciation and interest income. The Fund seeks to achieve its objective by investing in a diversified portfolio of equity securities, fixed and floating rate debt securities, including low-rated debt securities, convertible and hybrid debt securities and debt obligations issued by government, government-related issuers and corporate entities which are located, incorporated or have their principal business activities in Sri Lanka. All investments made by the fund will be qualifying securities under the Unit Trust Code, 2011.

The Fund's portfolio will of course be subject to market fluctuations and to risks inherent in investments in Sri Lanka. For details of the risks involved, please refer to the section entitled "Risk Factors" below.



## 1.6 Distribution of Income

It is not the present intention of the Manager to distribute the net income of the Fund although the Trust Deed contains provisions under which the Manager has the discretion to distribute out of income or capital of the Fund.

## 1.7 Transfer of Units

The Unit Holders may instruct the Manager to transfer their investments to any other Unit Trust managed by the Manager (if any). Unit holders are required to tender specific written instructions for the transfer of Units and it will be subject to "Redemption of Units" under 2.11 herein this document.

## 1.8 Investment Restrictions

1	Listed Equity of Listed Issuer	15% of the Net Asset Value (NAV) subject to a 10% of the Investee Company's voting share capital.
2	Listed Debt of a Listed Issuer	Not more than 25% of the NAV per single issuer
3	Un - Listed Debt of a Listed Issuer	
	If Guaranteed	Not more than 15% of the NAV per single issuer
	If Endorsed with recourse	Not more than 15% of the NAV per single issuer
	If either issuer or issue is rated	Not more than 15% of the NAV per single issuer
	If none of the above	Not more than 10% of the NAV per single issuer
4	Listed Debt of Un - Listed Issuer	Not more than 25% of the NAV per single issuer
5	Un - Listed Debt of Un - Listed Issuer	
	If Guaranteed	Not more than 15% of the NAV per single issuer
	If Endorsed with recourse	Not more than 15% of the NAV per single issuer
	If either issuer or issue is rated	Not more than 15% of the NAV per single issuer
6	Licensed, investment grade rated commercial bank whether through investments, endorsements or guarantees.	Not more than 25% of the NAV per single issuer
7	Placements or offer for sale of listed debt instruments	Not more than 25% of the NAV per single issuer

Unless permitted by the SEC, a managing company shall not make the following investments:

- a) Investments in commodities, futures and options.
- b) Investments in real estate, other than investments in real estate investment companies or companies that have real estate investments activities.
- c) Investments for the purpose of gaining management control of a company in which the Unit Trust has purchased share capital.
- d) Investment in foreign securities.
- e) Investment in any asset which involves the assumption of unlimited liability.
- f) Such other investments as may be designed from time to time by the SEC as being investments that are not to be undertaken by a managing company.

Further, The Manager shall at all times maintain a minimum level of 3% liquidity of the total deposited property of the Fund. The manager could only borrow maximum of 15% against the funds deposited property.

All investments made by the Manager shall be in accordance with the Unit Trust Code, 2011.

## **1.9 Risk Factors**

### General risks

- The prices of units depend on the market values of the Fund's investments and such prices as well as the income from units may fluctuate accordingly. Past performance of the Fund does not indicate the future performance.
- Investment in the Fund is not capital guaranteed and is only suitable for investors who can leave their capital for medium to long-term investment and are prepared for medium to high risk related to the risks of investing in Sri Lankan equities.
- The Fund's performance is subject to the risks associated with its investments and cash exposure including, among others, market, interest rate, currency, exchange rate, economic, credit, liquidity, counterparty, foreign securities and political risks.
- Investment objective express an intended result but there is no guarantee that such a result will be achieved. Depending on market conditions and macroeconomic environment, investment objective may become more difficult or even impossible to achieve. There is no express or implied assurance as to the likelihood of achieving the investment objective for the Fund.
- Investment in the Fund is not in the nature of a deposit in a bank account and is not protected by any government, government agency or other guarantee scheme which
- May be available to protect the holder of a bank deposit account.



considered to have a higher credit risk and a greater possibility of default than more highly rated securities. In the event that any issuer of bonds or other debt securities experiences financial or economic difficulties, this may affect the value of the relevant securities (which may be zero) and any amounts paid on such securities (which may be zero). This may in turn affect the net asset value per Unit of the Fund.

- The ratings of fixed-income securities by credit rating agencies are a generally accepted barometer of credit risk. They are, however, subject to certain limitations from an investor's standpoint. The rating of an issuer is heavily weighted by past developments and does not necessarily reflect probable future conditions. There is frequently a lag between the time the rating is assigned and the time it is updated. In addition, there may be varying degrees of difference in credit risk of securities within each rating category. It should also be noted that investment in securities issued by corporations may represent a higher credit risk than investment in securities issued by governments.

#### Counterparty and Settlement risk

- The Fund may also be exposed to a credit risk on counterparties with whom they trade securities and may also bear the risk of settlement default. As the Fund invests in securities in Sri Lanka where settlement mechanisms are generally less developed and reliable than those in more developed countries. This therefore increases the risk of settlement default which could result in substantial losses for the Fund.

#### Liquidity risk

- Not all securities or investments held by the Fund will be listed or rated or actively traded and consequently liquidity may be low. Moreover, the accumulation and disposal of holdings in some investments may be time consuming and may need to be conducted at unfavorable prices. The Fund may also encounter difficulties in disposing of assets at their fair price due to adverse market conditions leading to limited liquidity. Moreover, there is no assurance that the liquidity of the Fund will always be sufficient to meet redemption requests as and when made.

#### Initial Public Offering Risk

- The Fund may invest in initial public offerings, which frequently are smaller companies. Such securities have no trading history, and information about these companies may only be available for limited periods. The prices of securities involved in initial public offerings may be subject to greater price volatility than more established securities.

#### Investor risk

- Substantial redemptions of units (which are more likely to occur in adverse economic or market conditions) could require the Manager to liquidate investments of the Fund

more rapidly than otherwise desirable in order to raise the necessary cash to fund the redemptions and to achieve a position appropriately reflecting the smaller equity base. This could adversely affect the net asset value of both units being redeemed and of remaining units.

- The Manager is entitled under certain circumstances specified in the Trust Deed to suspend dealings in the units. In this event, valuation of the net asset value will be suspended, and any affected redemption applications and payment of redemption proceeds will be deferred. The risk of decline in net asset value of the units during the period up to the redemption of the units is borne by the redeeming unitholders.
- In the event of the early termination of the Fund, the Fund would have to distribute to the unitholders their pro rata interest in the assets of the Fund. It is possible that at the time of such sale or distribution, certain investments held by the Fund may be worth less than the initial cost of such investments, resulting in a substantial loss to the unitholders.

#### Performance fee risk

- The Fund charges performance fees on a rolling 365 day basis. That fee calculation basis may result in performance fee charges that differ from the investor's holding period return.

### **1.10 Currency Denomination of Units**

All pricing and transactions of the Fund will be denominated by Sri Lankan Rupees (LKR).

## **2.0 INVESTMENT IN UNITS**

### **2.1 Issue of new Units under this Memorandum**

Eligible Investors are hereby invited to invest in Units of FCEF on a continuous basis by this memorandum. No upper limit has been set to the number of Units the Fund can issue.

### **2.2 Investment Scheme**

Investor can purchase Units at the prevailing market price. (Initial issue price on 07<sup>th</sup> September 2015 was LKR 1,000/= per unit).



## 2.3 Eligibility to Invest

- a. Citizens of Sri Lanka, Companies and Institutions incorporated in Sri Lanka.
- b. Pension Funds, Provident Funds and other legally constituted bodies incorporated in Sri Lanka.
- c. Minors under the age of 18 years may apply for units, but the application should be made by a parent or guardian on behalf of such minor.
- d. Non-citizens/institutions incorporated outside Sri Lanka (via Inward Investment Accounts).

## 2.4 Allotment of Units

Units are allotted to an investor when funds are received (realized) in support of an application for the purchase of Units duly made at the office of FCAM.

All allotments in respect of investments where payment is made by banker's drafts and cheques will be made only after the realization of funds.

## 2.5 Reinvestment of Dividends

Unit Holders of the FCEF are given the option of re-investing declared dividends in fresh Units at the existing selling price offered by the Manager.

## 2.6 Minimum Subscription

The minimum initial subscription by an investor for Units, is LKR 1,000/-.

## 2.7 Mode of Payment

Payment for Units should be made;

- **Cheque/ banker's draft:** in favor of "First Capital Equity Fund – Collection account" crossed Account Payee only and sent to First Capital Asset Management Limited, 2, Deal Place, Colombo 03, Sri Lanka.

- **Direct Deposits:**

Account Name	:	First Capital Equity Fund – Collection account
Bank	:	Bank of Ceylon – Corporate Branch
Number	:	77884788



## **2.12 Pledging the Units**

Unit Holders are provided with the facility of pledging their Units with financial institutions as collateral at the request of the Unit Holders.

## **2.13 Application/Mandate Forms**

Application forms can be obtained from FCAM office at No. 2, Deal Place, Colombo 03.

## **3.0 VALUATION OF UNITS**

The offer price and the redemption price are calculated daily by the Manager according to the market value of the portfolio of the Fund.

### **3.1 Selling/Offer Price**

This is the price at which fresh Units are offered to investors at that particular subscription day.

The selling price/offer price at any subscription day is determined by;

- a. Ascertaining the value of the net asset of the Fund as at 4.00 p.m. (Sri Lankan Time) on the - previous day.
- b. Adding such sum that Manager may consider as representing the appropriate provision for duties and charges.
- c. Dividing the result sum by the number of units in issue and deemed to be in issue.

### **3.2 Buying or Redemption Price**

This is the price which the Manager will offer to existing Unit Holders at a particular subscription day for redemption of Units.

The buying price or the redemption price at any subscription day is determined by;

- a. Ascertaining the value of net assets of the Fund as at 4.00 p.m. (Sri Lankan Time) on the previous day.
- b. Deducting there from such sum that Manager may consider as representing the appropriate duties and charges which would have been incurred if all the securities and other assets of the Fund would have been realized on that date at the prices equal to their respective value as at 4.00 p.m. (Sri Lankan Time) on previous day.
- c. Dividing the resulting sum by the number of units in issue.
- d. Deducting any exit fee.

### **3.3 Valuation Policy**

**All listed Equity securities** will be valued at market prices published by the Colombo Stock Exchange.

**Government Securities** shall be valued on mark to market basis using the daily yield curve released by the Central Bank of Sri Lanka (CBSL) until maturity.

**All unlisted fixed income securities** shall be valued on a Mark to Market basis using the daily yield curve released by the CBSL until maturity plus any risk premium attached to the instrument.

**All quoted debt securities** shall be valued the last traded price. Where there is no trade for 90 calendar days, it shall be valued on a mark to market basis using the daily yield curve released by the CBSL until maturity plus any risk premium attached to the instrument.

**The risk premium** for valuation of unquoted and quoted debt securities shall continue to be calculated as the difference between the yield on the Corporate Debt and the yield on the Government Security of a similar maturity at the time of investing.

**Repo Investments and Term/Call Deposits** shall be valued at cost plus accrued interest basis.

### **3.4 Number of Unit holders**

Minimum number of unit holders is Fifty (50) and no limit on maximum number of unit holders.

## **4.0 FEES AND CHARGE**

### **4.1 Front End Fee**

There are **no** Front End Fees applicable for this Fund.

### **4.2 Management Fee**

The Management Fee will be comprised of

1. A fixed fee of 1.00% per annum of the net asset value of the Fund which shall be calculated daily and shall be payable to the Managers in arrears at the end of each calendar month.
2. A performance fee of 25% on the excess of the return of the Fund over the return of the All Share Total Return Index (or a similar Index which may substitute such Index on the Colombo Stock Exchange) after considering that any dividend paid by the Fund during the relevant period would actually have been reinvested in the Fund during such period and earned a return equal to the return of the Fund during such period. The Management Fee shall begin to accrue from the closing date of the first offer of Units, from day to day



on the Net Asset Value as estimated each day, provided however that the performance fee shall only be charged to the Fund on the basis set out in sub clause (iii) below.

3. The performance fee shall be calculated on a 365 rolling day basis with a comparison being made of the return of the Fund over the return of the All Share Total Return Index (or a similar Index which may substitute such Index on the Colombo Stock Exchange) from the beginning of such 365 day period to the end of such 365 day period. The performance fee shall be payable to the Managers in arrears at the end of each calendar month. For the avoidance of doubt the performance fee (if applicable) shall only start accruing after the expiry of 365 days from the closing date of the first offer of Units by the Fund.
4. Performance fees will not accrue during the first year after the launch of the Fund.

#### **4.3 Trustee Fee**

Up to a maximum of 0.23% per annum of the net asset value of the Funds deposited property.

#### **4.4 Exit Fee**

Exit fee will be charged on the value of redemption as follows.

- 5% if redeemed with in the first year of investment.
- 4% if redeemed with in the second year of investment.
- 3% if redeemed with in the third year of investment.
- 2% if redeemed with in the fourth year of investment.
- 1% if redeemed with in the fifth year of investment.
- Exit fees are exempt on redemptions after the fifth year.

#### **4.5 Other Fees to be paid out of Deposited Property**

- a. Taxation and duties payable in respect of the deposited property or the issue of units.
- b. Any costs incurred in the preparation or modification of the Trust Deed.
- c. Any costs incurred in respect of meetings of unit holders.
- d. Any expenses or disbursements of the Trustee, which are authorized by the Trust Deed.
- e. The audit fees of the auditor and any expenses of the auditor.
- f. Licensing fees imposed by the Commission.
- g. All direct and indirect taxes imposed by the Government from time to time that are required to be charged to the deposited property.
- h. Legal expenses incurred in safeguarding the deposited property.
- i. In case of an Exchange Traded Fund tracking the price of gold or price of any other commodity approved by the Commission, recurring expenses incurred towards storage and handling of gold or such other commodity.
- j. Listing fees in case of funds listed on a stock exchange licensed by the Commission

The fees and expenses incurred on soliciting advisors, investment consultants and agents shall be borne by the Manager of the Fund.



## **5.0 GENERAL INFORMATION**

### **5.1 Rights of Unit Holders**

- a. Inspect the Trust Deed at the office of the Manager during the office hours free of charge. Copies of the Trust Deed is priced at LKR.500/- can be purchased from Manager, at their office on any working day, at No. 2, Deal Place, Colombo 03, from 9.00 a.m. to 3.00 p.m.
- b. To redeem subject to the conditions of the Trust Deed all or part of the Units registered in their name.
- c. To receive periodical statements, annual accounts and reports of Auditors.
- d. To transfer the units registered in their name of a holder on the payment of the fee of Rupees One Hundred (LKR.100/-).
- e. To participate in meetings of the unit holders subject to provisions of the Trust Deed.
- f. The transfer of Units on payments of any fees applicable.

### **5.2 Periodic Reports and Accounts**

Subject to the SEC approval under rule 28, annual reports and audited financial statements shall be published and distributed by the managing company to Unit Holders entered in the register, within 3 months of the end of the Unit Trust's financial year and half yearly interim reports shall be published in at least one leading Sri Lanka newspaper and/or distributed to Unit holders within 3 months of the period they cover.

### **5.3 Suspension of Dealing**

The Manager may suspend the dealing during the following instances with the approval of the Trustee and the SEC.

- a. The existence of any state of affairs which in the opinion of the Manager constitute an emergency.
- b. Any period when there is a breakdown in the communication normally employed by the Manager in determining or ascertaining the price of their investments.
- c. Any period when remittance of monies which will or maybe involved in the realization of their investments or in the payment of such investments cannot be carried out within a reasonable time.
- d. The suspension of dealing will be lifted immediately after the Manager is satisfied the situation/situations mentioned above ceases to exit.

### **5.4 Taxation**

Investors are advised to consult their tax advisors/professionals before investing in Units of the First Capital Equity Fund

## Explanatory Memorandum

"This Explanatory Memorandum is dated 07<sup>th</sup> November 2019 and can be inspected free of charge at First Capital Asset Management Limited, No 2, Deal Place, Colombo 3.

This document does not constitute an offer or solicitation to anyone in any jurisdiction in which such offer or solicitation is not authorized or to any person to whom it is unlawful to make such offer or solicitation and maybe used only in connection with offering of units to which it relates by distributors as contemplated herein.

The Board of Directors of the Trustee hereby declares that it will carry out the transactions with the Managing Company at an arm's length basis and on terms which are best available for the fund, as well as act, at all times, in the best interests of the fund's Unit Holders.

The Board of Directors of the Trustee also hereby declares that they have complied with the requirements of the guidelines issued by the SEC. The Trustee further certifies that it has read and agrees with the representation contained herein".



Authorized Signatory

On behalf of the Board of Directors of the Trustee

"The Board of Directors of the Managing Company hereby declares that it will carry out the transactions with the Trustee at an arm's length basis and on terms which are best available for the fund as well as act, at all times, in the best interests of the fund's Unit Holders.

The Board of Directors of the Managing Company hereby declares that they have complied with the requirements of the guidelines issued by SEC.

This information memorandum has been seen and approved by the Directors of the Managing Company and they collectively and individually accept full responsibility for the accuracy of the information given and confirm that, after making all reasonable inquiries to the best of their knowledge and belief, there are no other facts, the omission of which would make any statement herein misleading".



FIRST CAPITAL ASSET MANAGEMENT  
LIMITED - PB 187



On Behalf of the Board of Directors of the Managing Company