



First Capital

FIRST CAPITAL FIXED INCOME FUND
EXPLANATORY MEMORANDUM

Dated 07th 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 FIXED INCOME FUND (FCFIF)**, an open-ended Unit Trust operating in view of investing its Unit holder's Funds exclusively in fixed income securities.

FCFIF is licensed 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 FCFIF 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 FIXED INCOME FUND should be directed to:

First Capital Asset Management Limited
2, Deal Place
Colombo 3
Sri Lanka
www.firstcapital.lk

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Table of Contents

1. INTRODUCTION TO THE FUND	1
2. INVESTMENT IN UNITS	5
3. VALUATION OF UNITS	8
4. FEES AND CHARGES	9
5. GENERAL INFORMATION	10

1. INTRODUCTION TO THE FUND

1.1 Introduction

The FCFIF is structured as an "Open-Ended Unit Trust" where the investments made by Unit Holders are placed exclusively in a portfolio of Fixed Income Securities under the Unit Trust Code. The FCFIF 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 was formed in 2002, 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.

The unit trust will be managed by the management company in accordance with the provisions of the Act, the provisions of this Code, Trust Deed, the last published Explanatory Memorandum of such managing company and the directives issued by the Commission 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.
- 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 Ratings Lanka (SL), and named among top 1,000 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 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 Objective of the FCFIF is to yield superior returns to Unit Holders while minimizing their risk through investments in Fixed Income Securities placed according to the parameters stated in the Unit Trust Code. The securities considered for investment will include:

- a. Treasury Bills, Treasury Bonds and Reverse Repurchase Investments against Government Securities.
- b. Corporate Debt Securities (Commercial Papers, Asset Backed Papers, Debentures & etc.) which would be rated/unrated, listed/unlisted on the stock exchange, secured/unsecured.
- c. Call/Term Deposits in Licensed Commercial/Specialized Banks and Non-Bank Financial Institutions.

The management and operational teams of First Capital Group will employ risk management tools to accommodate the various risk and liquidity considerations attached to different types of securities.

The manager will seek to diversify the portfolio by investing in government debt securities and corporate debt securities, issued by different companies spread over different industries for different tenors.

1.6 Distribution of Income

FCFIF intends to distribute income to its Unit Holders by way of dividends at the discretion of the management.

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 Debt of a Listed Issuer	Not more than 25% of the NAV per single issuer
2	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
3	Listed Debt of Un - Listed Issuer	Not more than 25% of the NAV per single issuer
4	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
5	Licensed, investment grade rated commercial bank whether through investments, endorsements or guarantees.	Not more than 25% of the NAV per single issuer
6	Placements or offer for sale of listed debt instruments	Not more than 25% of the NAV per single issuer

*NAV - Net Asset Value

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

- Investments in commodities, futures and options.
- Investments in real estate, other than investments in real estate investment companies or companies that have real estate investments activities.
- Investments for the purpose of gaining management control of a company in which the Unit Trust has purchased share capital.
- Investment in foreign securities.
- Investment in any asset which involves the assumption of unlimited liability.
- 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 Net Asset Value 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 imposed by the SEC.

1.9 Risk Factors

The fund's investments will be subject to normal market risks such as liquidity risk, re-investment risk (interest rate risk) or default risk, or a combination of these risks. The manager cannot eliminate these risks but will employ its resources towards minimizing such risks while pursuing the fund's objective of achieving superior yields for Unit Holders. The mix of investments will differ from time to time at the discretion of the manager with adequate liquidity maintained in the form of near-cash investments at all times.

1.10 Currency Denomination of Units

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

2. INVESTMENT IN UNITS

2.1 Issue of new Units under this Memorandum

The general public of Sri Lanka is hereby invited to invest in Units of FCFIF on a continuous basis by this memorandum. No upper limit has been set to the number of Units the Fund can issue to the public.

2.2 Investment Scheme

Investor can purchase Units at the prevailing market price. (Initial issue price on 11th March 2014 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 FCFIF is 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 Fixed Income Fund" 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 Fixed Income Fund – Collection account
Bank	:	Bank of Ceylon – Corporate Branch
Number	:	76544939

2.8 Refunds

Refunds of subscription monies to applicants, whose applications are invalid for any reason whatsoever, will be dispatched within 14 working days of the receipt of the application.

2.9 Issue of transaction receipts

Investor will receive a transaction receipt upon each investment which is not required to be submitted at the next subscription or redemption.

2.10 Bank Account Details

The clients must specify a bank account number (authorised account) in the mandate form to which redemptions is to be remitted. Where the bank account details of a client have subsequently changed, a proof of account ownership must be submitted by the client at the time of redemption or before.

2.11 Redemption of Units

Unit Holders may, in general, redeem the Units on any subscription day at the Manager's buying price relevant to that subscription day, subject to the following conditions.

- a. A written request, fax or email (subject to submission of a duly signed email/fax indemnity) must be submitted to the Manager by the Unit holder.
- b. In the case of joint holders, both Unit Holders should place their signatures on the redemption request letter.
- c. Applications for redemption should be submitted to the Manager before 9.00 a.m. on a subscription day. Any request received after 9.00 a.m. will be processed on the following subscription day.
- d. If the total amount to be redeemed by a Unit holder is greater than or equal to 3% (three percent) of the net asset value of the Fund on that subscription day, the Unit holder is required to give fourteen days (14 days) written notice in advance to the Manager.
- e. Clients who opt not to have a transaction receipt instead a unit trust (UT) certificate should surrender the original UT certificate to make their redemptions at all time and those who fail to surrender the original UT certificate should be supported by a valid indemnity / affidavit.
- f. The proceeds on redemption of Units will be transferred to authorised account (refer 2.10) or made by a cheque.

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. 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.

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 the previous day.
- c. Dividing the resulting sum by the number of units in issue.

3.3 Valuation Policy

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 listed 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 call/term Deposits shall be valued at cost plus accrued interest basis.

4. FEES AND CHARGES

4.1 Front End Fee

There is **NO** Front-End Fee applicable for this Fund.

4.2 Management Fee

0.5% per annum of the net asset value of the deposited property of the Fund will be calculated daily and paid monthly.

4.3 Trustee Fee

0.22% per annum of the net asset value of the funds' deposited property. This is all Inclusive and will be calculated daily and paid monthly.

4.4 Exit Fee

There is **NO** Exit Fee applicable for this Fund.

4.5 Other Fees to be paid out of Deposited Property

- Taxation and duties payable in respect of the deposited property or the issue of units.
- Any costs incurred in the preparation or modification of the Trust Deed.
- Any costs incurred in respect of meetings of unit holders.
- Any expenses or disbursements of the Trustee, which are authorized by the Trust Deed.
- The audit fees and any expenses of the auditor.
- Licensing fees imposed by the Commission.
- All direct and indirect taxes imposed by the Government from time to time that are required to be charged to the deposited property.
- Legal expenses incurred in safeguarding the deposited property.
- 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.
- 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. GENERAL INFORMATION

5.1 Rights of Unit Holders

- 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.
- To redeem subject to the conditions of the Trust Deed all or part of the Units registered in their name.
- To receive periodical statements, annual accounts and reports of Auditors.
- To transfer the units registered in their name of a holder on the payment of the fee of Rupees One Hundred (LKR.100/-).
- To participate in meetings of the unit holders subject to provisions of the Trust Deed.
- 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

- a. The Manager may suspend the dealing during the following instances with the approval of the Trustee and the SEC.
- b. The existence of any state of affairs which in the opinion of the Manager constitute an emergency.
- c. Any period when there is a breakdown in the communication normally employed by the Manager in determining or ascertaining the price of their investments.
- d. 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.
- e. The suspension of dealing will be lifted immediately after the Manager is satisfied the situation/situations mentioned above ceases to exist.

5.4 Taxation

It is advised that Investors consult their tax advisors/professionals before investing in Units of FCFIF.

5.5 Explanatory Memorandum

"This Explanatory Memorandum is dated 07th 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".

FOR BANK OF CEYLON

.....
Authorised Signatories

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".


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FIRST CAPITAL ASSET MANAGEMENT
LIMITED - PB 187

On Behalf of the Board of Directors of the Managing Company