

**ABL Income Fund – 2<sup>nd</sup> Supplementary Offering Document**

**2<sup>nd</sup> SUPPLEMENT**

**TO THE**

**OFFERING DOCUMENT OF**

**ABL INCOME FUND**

**MANAGED BY**

**ABL ASSET MANAGEMENT COMPANY**

**LIMITED.**

**DATED: September 20, 2011**

**ABL Income Fund – 2<sup>nd</sup> Supplementary Offering Document**

**Second Supplement Dated September 20, 2011 to the Offering Document of ABL Income Fund (ABL-IF) issued on September 10, 2008.**

**Managed by ABL Asset Management Company Limited an Asset Management Company Licensed under the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003.**

Established in Pakistan under the Trust Act 1882 (11 of 1882) by a Trust Deed dated April 23, 2009 between ABL Asset Management Company Limited, the Management Company and Central Depository Company of Pakistan Limited, the Trustee and registered under Regulation 44 of the Non-Banking Finance Companies and Notified Entities Regulation, 2008, on May 26, 2009:

Effective from October 01, 2011 the Offering Document have been amended to read in their entirety as follows:

**1. Incorporation of the amendment, the revised Clause 2.2**

ABL Income Fund (ABL-IF) in line with its Investment Objectives will be investing in government securities, cash in bank account, money market placements, deposits, certificate of deposits (COD), certificate of musharakas (COM), TDRs, commercial paper, reverse repo, TFC/Sukuk, MTS or any other related products, spread transactions

**2. Incorporation of the amendment, the revised Clause 2.3.1 H**

*“Margin Trading System(MTS) or its replacement thereof with necessary Commission approval” and spread transactions*

**3. Addition of New Clause No.3.12.1 sub clause xi, sub clause xi will be re numbered as sub clause xii**

“The Trustee if requested by the Management Company shall also open separate Bank Account(s) titled “**CDC -Trustee ABLAMC Funds**” at various locations for collection of funds pursuant to any centralized funds collection system that may be introduced by the Management Company for all the unit trusts managed by the Management Company. These account(s) shall be a temporary allocation accounts, where collections received on account of subscription of Units by investors of various units trusts and Administrative Plans that are managed by the Management Company and under trusteeship of common Trustee shall be held prior to their being allocated and transferred to the Scheme on a daily basis by the Trustee. The Management Company may also require the Trustee to open separate accounts for temporary parking of redemption funds”.

**4. Original clause 4.4.2 xi will be replaced as**

Investors will be issued Units based on the Offer (Purchase) Price of the Scheme calculated on the basis of NAV as announced by the Management Company on the Business Day on which

subscription amount realized. subject to receipt of correctly filled Investment Form at the Distributor (please refer to Clause 3.9 above) and/or Management Company before cut off time of 4.00 pm. However, the Investor will be provided the account statement within seven (7) Business Days after the said purchase amount of the Units purchased have been credited to the Fund Account and duly filled application form is received.

In the event a cheque is returned unpaid, the Management Company will assume the application for subscription as void and the Investor will be informed accordingly. The investor will be asked to submit new investment form in case of change of payment instrument. Units will only be allotted and issued based on realization of the money. However, , offer price shall be based on the NAV announced by the management company on the business day when amount is realized in the Fund's bank account.

## **5. Addition of Sub clause xvii added in clause 3.4.2 after clause xvi**

**The Management company shall make provision in the accounts in line with the provisioning policy approved by the Board of Directors. To ensure compliance of disclosure, the provisioning policy is reproduced here.**

### **ELIGIBILITY CRITERIA FOR DEBT SECURITY AND OTHER EXPOSURE FOR MAKING PROVISION**

To be eligible for making provision, a security shall be classified as follows:

**Debt security** means any securities issued by a company or a body corporate for the purpose of raising funds in the form of redeemable capital and includes the following:

- TFC (Including Privately Placed TFC);
- Bonds;
- Debentures;
- Sukuks (Including Privately Placed Sukuks); and
- Commercial Papers.

**Other exposure** includes the following:

- Certificate of Investment / Certificate of Islamic Investments;
- Certificate of Deposit;
- Certificate of Musharakas;
- Letter of Placements;
- Other Money Market Placements.

### **CRITERIA FOR CLASSIFICATION AS NON - PERFORMING DEBT SECURITIES / OTHER EXPOSURES**

A debt security or other exposures shall be classified as a non-performing, if the interest and/or principal amount is past or overdue by 15 calendar days from the due date.

### **CRITERIA FOR SUSPENSION AND REVERSAL OF INTEREST / PROFIT**

- a) The accrual of interest/profit shall be suspended from the first day the interest/profit payment falls due and is not received.
  
- b) All interest/profit accrued and recognized in the books of Collective Investment Scheme shall be reversed immediately once a debt security or other exposure is classified as non-performing.

### **MINIMUM PROVISIONING AGAINST THE PRINCIPAL AMOUNT**

All non-performing debt securities/other exposures whether secured or unsecured shall be provided for in accordance with the following criteria from the day of classification as non-performing:

<b>Effective Day for Provisioning*</b>	<b>Minimum Provision as % of book value (outstanding principal amount)</b>	<b>Cumulative Provision</b>
90th day	20%	20%
180th day	10%	30%
270th day	15%	45%
365th day	15%	60%
455th day	Balance	100%

\*In the process of arriving at minimum provisioning against non-performing debt securities as above, ABL AMCL may create the requisite provision by spreading it over the number of days on pro rata basis.

In addition to the minimum provision prescribed above, any installment of principal amount in arrears during the period of non-performance shall also be fully provided.

### **ADDITIONAL PROVISIONING/PROVISION AGAINST NON-PERFORMING DEBT SECURITIES / OTHER EXPOSURES**

- a) In addition to the time-based criteria as prescribed above, subjective evaluation of non-performing debt securities/other exposures shall be made for risk assessment and, where considered necessary, any debt security/other exposure will be classified, and the category of classification determined on the basis of time based criteria shall be further downgraded. Such evaluation shall be carried out on the basis of credit worthiness of the borrower, its cash flow and financial position.

- b) The Management Investment Committee of the respective Fund shall evaluate the rationale for additional provision over and above the minimum criteria against non-performing debt securities/other exposures, based on subjective evaluation, as recommended by Fund Manager before submission to the Board Directors for their review and approval. Simultaneously same procedure to be followed for reversal of the subjective provisioning.

#### **CRITERIA FOR RECLASSIFICATION OF NON PERFORMING DEBT SECURITIES/OTHER EXPOSURES**

- a) In case a CIS/Fund has received all the arrears of interest, the interest amount reversed shall be written back to the extent it is received.
- b) In case a CIS/Fund has received all arrears of interest and the debt security/other exposures have not been reclassified as performing, the suspension of interest shall continue.
- c) The other exposures shall only be reclassified as performing once all the arrears (interest as well as principal) have been received in cash.
- d) In case a debt security earlier classified as non-performing subsequently performs as per the original repayment terms and all the arrears of interest and principal are duly received shall immediately be re-classified as performing and the provision made against such security shall be written back.
- e) A restructured debt security shall only be reclassified as performing once all the arrears have been received in cash and the security is regular on all payments (interest as well as principal) for the next two installments. The provision made for the principal amount shall be written back in the following manner:
- Where provision of principal was made due to the interest defaults only, 100% of the debt security provided for in the books shall be written back upon reclassification of the security as performing.
  - Where both installments and interest were in default, 50% of the provision made in the books shall be written back at the receipt of the first payment (interest/principal) and 50% at the receipt of second payment and the asset shall be reclassified as performing.

#### **PROVISIONING AGAINST PERFORMING DEBT SECURITY**

ABL AMCL shall not provide for against a performing debt security. However Mutual Funds Association of Pakistan (MUFAP) shall have the discretion to apply maximum mark-up of upto 500bps to the calculated yield of any specific debt security after taking in account the potential credit risk of any particular performing debt security or considering any unusual factor/event associated with the issuer or issue in order to ensure consistent and transparent valuations for entire mutual fund industry. Such factors/events may include following:

- Issuer of the performing debt security has defaulted on its other financial obligations.

- Rating of performing security has been significantly downgraded in a short time span.
- Breach of covenants relating to the performing debt security.
- Deteriorating operating, financial and cash flow position of the issuer.

## **REQUIREMENTS FOR DISCLOSURE OF THE PROVISIONING POLICY TO**

### **UNIT HOLDERS AND PROSPECTIVE INVESTORS**

The provisioning policy for non-performing debt securities/other exposures as approved by the Board of Directors of ABL AMCL shall be immediately disclosed/ disseminated by ABL AMCL to the existing unit holders, prospective investors, the Trustee of the CIS/Fund and the Commission. The same shall also be disseminated by ABL AMCL on its website. The provisioning made in light of the Provisioning Policy shall be disclosed by the AMC in the quarterly, half yearly and annual accounts of the CIS/Funds.

#### **6. Addition of New Sub Clause**

**It is proposed that new clause to be added as Sub clause No.9.5.7 clause 9.5.**

*“Notwithstanding anything to the contrary contained herein, where the Units are declared as CDS Eligible Securities, all matters concerning issuance, transfer, pledge and redemption of such Units issued in book entry form or deposited in to the CDS shall be dealt with in accordance with the provisions of the Central Depository Company of Pakistan Limited Regulations as amended from time to time.”*

#### **7. Incorporation of the amendment, the revised Clause 14.11**

*“Business Day” means a day on which Banks are open for business.*