

1st Supplement to the Offering Document of

UBL Pakistan Enterprise Exchange Traded Fund

Effective Date: 20.03.2020

First Supplemental to the Offering Document of UBL Pakistan Enterprise Exchange Traded Fund)

Managed by UBL Fund Managers Limited (UBL Funds) an Asset Management Company registered with the Securities & Exchange Commission of Pakistan (SECP) and regulated under the Non-Banking Finance Companies (NBFC) Rules 2003 and NBFC & NE Regulations 2008.

UBL Pakistan Enterprise Exchange Traded Fund has been established through a Trust Deed (the Deed) dated 27th June 2019 under the Trust Act, 1882 entered into and between UBL Fund Managers Limited (UBL Funds), as the Management Company and Central Depository Company of Pakistan Limited (CDCPL), as the Trustee.

Objective of the Supplementary Offering Document

UBL Funds is making amendment under following clauses via this Supplementary Offering Document

Words and expressions used but not defined in this Supplemental shall have the same meanings as are assigned to them in Offering Document of **UBL Pakistan Enterprise Exchange Traded Fund UBL Pakistan Enterprise Exchange Traded Fund**

1. The following sub-clause has been added/amended under sub-clause 2.1.2 of the Offering Document and read as follows:

1.1.1 The Benchmark of Fund

The benchmark of the fund shall be to track the performance of index based on weighted average cumulative performance of all securities includes in the index. The Management Company shall disseminate the Fund's performance with this Benchmark to the unit holders and/or PSX with certain intervals as specified by the Commission.

The Management Company shall immediately notify the Commission, the Exchanges on which it registered the underlying Unit Holders and the Trustee upon rebalancing of the UBL Pakistan Enterprise Exchange Traded Fund (UBL PAK ETF) based on the process agreed with PSX relating to intimation of rebalancing, announcement of INAV during that period etc. Notice to the Exchange and a notice on the website of management company would be sufficient to comply with the notice requirements

The AMC shall ensure that per party, per group and sector exposure limits and restrictions in relation to the securities held by the ETF are in accordance with their weightage in the Benchmark index.

UBL Pakistan Enterprise Exchange Traded Fund

Security Selection

Filter 1	Exclusion of Oil and Gas sector*
Free Float Market Cap	Top 25 Companies from KSE-100 index
Top traded value of last 2 years	Top 25 companies (70% weight assigned to last year & 30% to preceding LY)
Number of Stocks	Highest 9 stocks in terms of free float market capitalization shortlisted from previous 2 criteria**

Determination of weight

Based on free float Market Capitalization	
Minimum 3.5%, maximum 16%	Weight should be assigned in such a way that it should vary between minimum & maximum threshold of 3.5% & 16.0% respectively. ***

Fractional Shares Rounded Down

Weights adjusted for fractional shares after rounding down will result in the cash component in addition to 1% allocated on the onset.

Rebalancing

- Quarterly weight adjustment
 - Addition Deletion every six months
 - Corporate actions shall trigger reallocation/rebalancing****
- Weights realigned to fall between 3.5% & 16.0%

Rebalancing	
Basis	Implementation
Last working day of April	2nd working day of May
Last working day of July	2nd working day of Aug
Last working day of October	2nd working day of Nov
Last working day of January	2nd working day of Feb

*Oil and Gas sector includes: Oil & Gas Exploration Companies, Oil & Gas marketing Companies, Refinery

** In case fewer than 9 stocks are derived, the list may be extended beyond 25 stocks till the portfolio has a minimum of 9 stocks.

***i) In case weight for a security is less than 3.5% in the original distribution, then the weight from those stocks which are beyond 16% would be allocated to increasing the weight to 3.5%. ii) In case weight of stock does not suffice or initial weight of no stock is greater than 16% , weights from those barring the ones falling below 3.5% would be proportionately distributed to ones falling below 3.5%, until a minimum weight of 3.5% is achieved. iii) Even if after redistribution of weight to those falling below the minimum threshold, the weight of a certain stock remains higher than 16%, than the weight would be distributed proportionally to the original allocation to the remaining stocks. These weights will be applied at the time of each rebalancing

****The event of rights issue shall trigger rebalancing of weights to account for additional capital issue. Moreover deletion & addition could also be trigger in the event of any other special corporate events such as merger, acquisition & buy back etc.

Clause 4.1 to be replaced with following

Units

All Units thereof represent an undivided share in the Fund and rank pari passu as to their rights in the net assets, earnings, and the receipt of the dividends and distributions. Each Unit Holder has a beneficial interest in the Fund proportionate to the Units held by such Unit Holder.

The Fund is divided into creation of units lot size of Rs. **10,000 units** having an Initial Offer Price of Rs. 10/- each share. During initial offer which may be a preipo and or IPO, management company may invest or arrange to invest from an investor in cash or against portfolio deposit as determined by the management company. Such investor may not necessarily be the Authorized participant.

Management Company may decide to purchase index constituents during PREIPO/IPO if deemed necessary. PSX has agreed that the trading in ETF units may not start on a listing date and such trading may start at date which can be a listing date or any date after that at the discretion of the management company.

4.4.6 SECOND PARAGRAPH

Units Prices and dissemination of INAV. To be replaced with the following

The trading prices of the Fund's shares in the secondary market may differ from the Fund's daily NAV and are affected by market forces such as the supply of and demand for ETF shares and shares of underlying securities held by the Fund, economic conditions and other factors. Information regarding the intraday value of shares of the Fund, also known as the "indicative Net Assets Value" ("INAV"), is calculated and disseminated every **15 seconds or earlier** throughout each trading day by the PSX, the Exchange on which the Fund's shares are listed, based on the ETF basket information provided by the Fund, . The INAV is based on the current market value of the securities or other assets and/or cash required to be deposited in exchange for a Creation Unit. The INAV does not necessarily reflect the precise composition of the current portfolio of securities or other assets held by the Fund at a particular point in time or the best possible valuation of the current portfolio. Therefore, the INAV should not be viewed as a "real-time" update of the Fund's NAV, which is computed only once a day on a historical price basis.

The Management Company delegates its responsibility of determination of INAV to the Pakistan Stock Exchange. The Pakistan Stock Exchange shall carry out determination of the INAV per Unit on a current basis, within a Business Day as deemed necessary by the Management Company and as specified in the Offering Document. The Pakistan Stock Exchange shall ensure that INAV is disseminated to the Stock Exchange terminal at regular interval as mentioned above and agreed with PSX from time to time and shared with the Management Company to be displayed on the website of the management company.

The Management Company ensure that the INAV per Unit is calculated on the basis of criteria which is consistently applied by the Management Company or the third-party to whom this function is delegated to ensure that the valuations are objective and independently verifiable.

SECP has clarified that the management company shall not be held responsible relating to correctness and accuracy of INAV under clause 21 of circular 15 of 2012 dated May 8 2012 due to circumstances beyond its control such as force majeure , failure or malfunctioning of hardware/software despite the best effort by management company or the third party to which such function is delegated and virus or cyber-attack despite the fact that antivirus and other reasonable measures were in place by the management company or the third party to whom such function is delegated . Currently such function is outsourced to PSX. The clarification absolves management company from all liabilities as mentioned in circular 15 of 2012 dated May 8 2012.

INAV may be suspended in certain situations such as rebalancing and reconstitution. In cases INAV is suspended, a notice to such effect shall be sent to the exchange for the information of all investors. Since calculation and dissemination INAV is outsourced to PSX and is dependent on the Systems and procedures of PSX. Current system of PSX takes upto one hour to stop dissemination of INAV from the time a notice is given to PSX. For Example if a notice is given by the management company to PSX to suspend dissemination of INAV at 10am, PSX would implement the same by 11 am same day. Notice would include this fact for the information of investors and would be considered a final discharge of responsibility of the management company as this is purely related to systems and procedures of PSX. Furthermore current system at PSX doesn't allow resumption of INAV during the day once it is suspended during the day; hence INAV once suspended during the day will only be resumed next day. PSX has confirmed that they are in a process of upgrading their system and their new system will have

the capability of suspending and resuming the INAV on same day.

Clause 7. to be replaced with the following

1. TAXATION

7.1 Taxation on the Income of the Fund

Liability for Income Tax

The following is a brief description of the Income Tax Ordinance, 2001, applicable in respect of the Fund. This section is for advice only and potential investors should consult their tax experts for their liability with respect to taxation on income from investment in the Fund. This part does not cover tax liability of non-Pakistani resident investors with respect to taxes in their own jurisdiction.

Under the Tax Law in Pakistan, the definition of a public company includes a trust formed under any law for the time being in force. The Fund is considered as a public company liable to a tax rate applicable to a public company. however, the income of the Fund will be exempted from tax if not less than 90% of the accounting income for the year as reduced by capital gains whether realized or unrealized is distributed amongst the Unit Holders as dividend.

Exchange Traded Fund (ETF) is a new type of Fund being launched in Pakistan . ETF is a hybrid type of fund which has features of both open end and closed end fund. Under the ETF scheme, units can only be issued to and redeemed by Authorised Participants (APs) whereas in the case of other open end schemes, issuance and redemption of units can be done by any individual by through the AMC on the applicable NAV. The ETF units are tradeable in the Pakistan Stock Exchange (PSE) unlike the units of other open end mutual fund which can not be traded in the PSE and can only be placed for redemption with the AMC on applicable NAV. The feature of tradability in PSE is only available in the case of closed end fund and this specific feature differentiates the ETF from other open end funds and has resulted in practical difficulties in determining amounts under following

- a) Accounting treatment for refund of element of income at the time of redemption of units; and
- b) Determining the amount of income already paid on units redeemed to be included in the “Income Statement”.

The APs to whom the units are issued can either keep the units with themselves or can trade in the Pakistan Stock Exchange. Consequently, upon trading of units in the Pakistan Stock Exchange, the holder of the units keeps on changing whereas in the case of other open end schemes due to non-tradability of units, the customer remains the same.

The SECP in the year 2017 issued SRO756(I)/2017 dated August 3, 2017, wherein two important

changes were brought in with respect to open end mutual funds which are as follow:

- 1) the definition of element was introduced for the first time by the SECP and an explanation was also added to element's definition whereby the concept of refund of element was introduced (at the time of payment of dividend) in proportion to respective investments by unitholders in order to maintain the same ex-dividend NAV on all units in issue.
- 2) Apart from other amendments, a new line item on the face of the Income Statement in respect of "income already paid on units redeemed" was introduced in order to take out due impact of income of unit holders who have exited the fund during the year /period and have taken their due share of income.

The definition of element of income is given below:

"Element of income" represents the difference between net asset value on the issuance or redemption date, as the case may be, of the units and the Net Asset Value (NAV) at the beginning of the relevant accounting period.

Explanation "Element of Income" is a transaction of capital nature and the receipt and payment of element of income is taken to the unit holders' fund; however, to maintain same ex-dividend net asset value of all units outstanding on accounting date, net element of income contributed on issue of units lying in unit holder fund is refunded on units in the same proportion as dividend bears to accounting income available for distribution.

The purpose of defining "Element of Income", adding explanation paragraph under the above SRO and introducing the concept of "income already paid on unit redeemed" was to clarify and standardise the treatment across industry for open end schemes.

It is pertinent to note that track of investor (alongwith investment details) is required both for determining "refund of capital" and "income already paid on units redeemed". The track of investment details is possible in the case of open end schemes except for ETF since the issuance and redemption of units is being managed by the AMC on the basis of applicable NAV and the units are not tradeable in the PSE. Hence, the "refund of element" and "income already paid on units redeemed" can be matched and tracked with the investment of a unitholder.

However, in the case of ETF, the same is not possible since the units are being traded in the Pakistan Stock Exchange and the details of cost of investment of a unit holder who has purchased units form the market is not known to the AMC. The market tradability feature alongwith the corporate actions make it impossible for the AMC to get hold of investment details. Furthermore, the SRO is applicable to track the investment on a unit holder basis and then to account for "refund of element" and "income already paid on unit redeemed" by paying amount to the same unitholder who had originally got the units issued from AMC. This is not possible for the ETF unitholders since the units are originally issued to APs and the AMC do not have any track as to whether these units have been traded in the market or not and it is quite possible that units issued to one AP are redeemed by other AP by purchasing from market.

The current situation presents an anomaly for ETF whereby element of income is defined as an item of capital nature and it is impossible for an AMC to calculate "Element of Income" and "Income already paid on units redeemed" based on reasons mentioned above.

Therefore, SECP has given an exemption for ETFs allowing ETFs to take the entire "element of income" both at the time of issuance and redemption of units to profit and loss account/Income statement, Hence, Ninety percent of the profit so calculated, after recording element of income on issuance less those in units redeemed, is required to be distributed to comply with the requirements of Clause 99 of part 1 of the Second Schedule of the Income Tax Ordinance, 2001 in order to claim tax exemption. The tax should be deducted on dividend so paid which includes element on issuance of units. However such treatment may result in incurring of loss on redemption to that extent which will be available for adjustment against capital gains.

Withholding tax

Under the provision of Clouse 47(B) of part (IV) of second schedule of the income Tax Ordinance 2001, the Fund's income from dividend from Term finance certificates, Sukuks, return on (Riba free) deposits with banks/financial institutions, return from contracts, securities or instruments of companies,

organizations and establishments will not be subject to any withholding tax.

Zakat on Fund

The Fund is Saheb-e-Nisab under the Zakat and Ushr Ordinance, 1980. The balance in the credit of savings bank account, or similar account with a bank standing on the first day of Ramzan-ul-Mubarak will be subjected to Zakat deduction @ 2.5%.

Taxation and Zakat on Unit Holders

Taxation on Income from the Fund of the Unit Holder

The following is a brief description of the Income Tax Ordinance, 2001, applicable in respect of Unit Holder of the Fund. This section is for advice only and potential investors should consult their tax experts for their liability with respect to taxation on income from investment in the Fund. This part does not cover tax liability of non-Pakistani resident investors with respect to taxes in their own jurisdiction.

Unit Holders of the Fund will be subject to applicable Income Tax on dividend income distributed by the Fund

Capital gain arising from sale/disposal of Units of the Fund in the secondary market will be subject to tax at the applicable tax rate as mentioned in Income Tax Ordinance 2001 and shall be computed determined and collected by the NCCPL.

Capital Gain on Redemption by authorized participant /Institutional investor or any other unit holder through the management company will also be computed determined and collected from the AP/customer/unit holder by NCCPL, considering the ageing and price maintained by NCCPL in its system,

Further in this scenario explained above related to accounting treatment of element of income, the withholding tax deducted on Dividend distribution would be higher than any other open end fund however the ultimate effect of such higher deduction is adjusted against the capital gain tax at the time of redemption

Zakat

Units held by resident Pakistani Unit Holders shall be subject to Zakat at 2.5% of the value of the Units under Zakat and Ushr Ordinance, 1980, (XVII of 1980), except those exempted under the said Ordinance. Zakat will be deducted at source from the redemption proceeds. Above deduction will not be made if Unit Holder provides declaration in due course of time to the Management Company.

Disclaimer

The tax and Zakat information given above is based on the Management Company's tax advisor's interpretation of the law which, to the best of the Management Company's understanding, is correct. Investors are expected to seek independent advice so as to determine the tax consequences arising from their investment in the Units of the Fund. Furthermore, tax and Zakat laws, including rates of taxation and of withholding tax, are subject to amendments from time to time. Any such amendments in future shall be deemed to have been incorporated herein.