



SUPPLEMENTAL INFORMATION MEMORANDUM

ARVOCAP MABRUK SHARIA SPECIAL FUND (KES)

DATED _____

“PERMISSION HAS BEEN GRANTED BY THE CAPITAL MARKETS AUTHORITY (CMA) TO OFFER TO THE PUBLIC THE SECURITIES WHICH ARE THE SUBJECT OF THIS ISSUE. AS A MATTER OF POLICY, CMA ASSUMES NO RESPONSIBILITY FOR THE CORRECTNESS OF ANY STATEMENTS OR OPINIONS MADE OR REPORTS CONTAINED IN THIS INFORMATION MEMORANDUM

Supplemental Information Memorandum – Arvocat Mabruk Sharia Special Fund (KES)

1. GENERAL

- 1.1. This First Supplemental Information Memorandum “IM” is issued to provide additional information in relation to the Arvocat Mabruk Sharia Special Fund (KES) “The Fund” as per schedule 1 of the Information Memorandum for Arvocat Asset Managers Fund Umbrella Scheme.
- 1.2. Arvocat Mabruk Sharia Special Fund (KES) “Fund” is a CIS product established under the Capital Markets regulations as a unit trust under the provisions of the Capital Markets (Collective Investment Schemes) Regulations 2023 (“the CIS Regulations”).
- 1.3. The Fund shall operate as an open-ended fund and its units shall therefore be continuously offered through its authorised agents.
- 1.4. The unit holders’ interest in the Fund will be represented by the units held in the Fund determined by the Net Asset Value of the Fund.
- 1.5. All terms used in this main Information Memorandum shall have the same meanings assigned to them in the Information Memorandum unless where the context otherwise requires.
- 1.6. All information provided herein is practicable as at 1st February 2024 and shall remain current and relevant as at such date.
- 1.7. As per the CMA guidelines on the Special Collective Investment Schemes seeking to exceed investments limits provided by Regulation 102 (e) of the Capital Markets (Collective Investment Schemes) Regulations, 2023 the minimum investment in the Fund is KES 100,000.00 or its equivalent when quoted in a different currency.
 - 1.7.1. The approximate equivalence when quoted in a different currency other than the Kenya Shilling for the minimum limit will be advised by the Fund Manager and may change based on the Kenya Shillings volatility. The investors will be given a notice of 90 days when such a change is to be implemented after the authorization of the Trustee and the Capital Markets Authority.

FUND INFORMATION

2. FUND MANAGER

- 2.1. The Fund Manager is Arvocat Asset Managers Limited “Arvocat”. Arvocat is regulated by the Capital Markets Authority (Kenya) under license number 190 issued on 30th October 2023.
- 2.2. The registered office for Arvocat is
Reliable Towers, 8th Floor – Wing B,
Mogotio Road, Westlands, Nairobi, Kenya.

Supplemental Information Memorandum – Arvocap Mabruk Sharia Special Fund (KES)

- 2.3. Further information on the umbrella fund is found on the Information Memorandum clause 2 on Unit Trust Scheme and clause 8.1 on Fund Manager.

3. TRUSTEE

- 3.1. The Trustee for the Fund is NCBA BANK KENYA PLC

- 3.2. The registered office for NCBA BANK is

NCBA House, Mara & Ragati Road,
Upperhill, Nairobi, Kenya

- 3.3. Further information on the trustee and their obligations is set out on the main IM clause 8.2

4. CUSTODIAN

- 4.1. The custodian for the fund is NCBA BANK KENYA PLC

- 4.2. The registered office for NCBA BANK is

NCBA House, Mara & Ragati Road,
Upperhill, Nairobi, Kenya

- 4.3. Further information on the custodian and their obligations is set out on the main IM clause 8.3.

5. AUDITOR

- 5.1. The auditor for the Fund is KING'ORI KAMAU & COMPANY (CPAK)

- 5.2. The registered office for KK & CO is

Worldwide Printing Centre, 4th Floor
Next to Stima Sacco, Parklands, Nairobi, Kenya.

- 5.3. Further information on the auditor and their obligations is set out on the main IM clause 8.4.

6. ASSET CLASS

- 6.1. As guided on the main Information Memorandum clause 4.4.2 on asset classes where the fund will have exposure in;
- 6.2. The fund will invest a mix of asset classes but whose underlying securities are Sharia compliant.
- 6.3. The fund will use cash as a control tool in between trades.

7. FUND COMPOSITION AND ASSET ALLOCATION

- 7.1. As guided on the main Information Memorandum clause 6 on asset allocation the funds Asset allocation will be as per the limits below: -

Supplemental Information Memorandum – Arvocap Mabruk Sharia Special Fund (KES)

Asset Class	Target Allocation	Asset Allocation Range	Fund Benchmark
Listed Equities	35%	0% - 100%	Dow Jones Islamic Market MENA Index
Offshore Equities	10%	0% - 60%	
REITS	25%	0% - 80%	
Structured Products and unlisted securities	15%	0% - 25%	
Islamic Bonds	10%	0% - 60%	
Cash	5%	2.5% - 100%	

7.2. The above investments can be made provided that: -

7.2.1.No limits shall apply to investments of the Arvocap Mabruk Sharia Special Fund (KES) in stocks listed on the Exchanges that are members of the Nairobi Securities Exchange, as long as it is classified as meeting the minimum investment thesis protocols as defined in the respective funds IPS and Sharia guidelines.

7.2.2.For unlisted REITS, the fund manager will carry out due diligence on the sponsor and promotor of the REITS and ensure proper legal structures such as SPV's are used and registered accordingly. The REITS will be held by a Trustee licensed by the Capital Markets Authority.

7.2.3.The Fund Manager will employ a risk diversification strategy aimed at reducing the overall portfolio risk and in compliance to Sharia guidelines on shared risk and striking the correct risk-weighted balance in the portfolio. To avoid risk concentration, the measures below shall also be undertaken.

7.2.4.The book value of an investment in a company shall not in aggregate exceed twenty-five per cent (25%) of the Arvocap Mabruk Sharia Special Fund (KES) net asset value; and

7.2.5.The book value of Arvocap Mabruk Sharia Special Fund (KES) holding of Securities relating to any single issuer shall not exceed twenty-five per cent (25%) of the respective Fund's net asset value.

7.2.6.The limits and restrictions, in this part shall be complied with at all times based on the most up-to-date value of Arvocap Sharia Special Fund (KES), but a five percent (5%) allowance in excess of any limit or restriction shall be permitted where the limit or restriction is breached through the appreciation in value of the portfolio.

7.2.7.Information on the investments will be given in monthly reports in form of a fact sheet to the Unit Holders on the investments in the Portfolio undertaken by the Fund Manager. These

Supplemental Information Memorandum – Arvocap Mabruk Sharia Special Fund (KES)

reports will review the investment activity and performance of the Portfolio and any changes comprising the Arvocap Sharia Special Fund (KES)

7.3. Liquidity Management Tools

7.3.1. The Fund manager will maintain a classification of underlying assets as “highly liquid”, “moderately liquid”, “less liquid”, and “illiquid”.

7.3.2. Continuous stress testing of the asset side, considering volatility in valuations, and the liability side, considering the risk of redemptions will be implemented to guide classification in 7.3.1 above.

7.3.3. The fund manager has an obligation to treat all investors equally and thus best effort will be put to ensure actions of some investors do not jeopardize other investors. As such, the fund manager will apply clause 11.3 on restrictions on redemptions at 10% per dealing as guided and with the same information shared with the Capital Markets Authority.

7.3.4. The fund manager will also apply swing pricing (supported by European Asset Market Association ESMA and as practiced in 25 EU jurisdictions), a globally accepted standard, where transacting investors pay the cost of accessing the liquidity and thus incentivizing the investors to spread out redemption requests.

8. INVESTMENT AND BORROWING RESTRICTIONS

8.1. The guiding principles of investment for the Arvocap Mabruk Sharia Special Fund (KES) are to invest in asset classes that are considered Shariah Complaint and do not contravene any Islamic Investment Principles.

8.2. The Arvocap Mabruk Sharia Special Fund (KES) will follow the S&P 500 Shariah Indices Methodology as well as the FTSE Shariah Methodology.

8.3. All investments into companies that produce what is considered sin products under Sharia regulations are prohibited.

8.4. Going by the Sector-Based Screens guided by the S&P 500 Shariah Indices Methodology as well as the FTSE Shariah Methodology, business activities related to the following are excluded:

8.4.1. Advertising;

8.4.1.1. Advertisers of pork, alcohol, gambling, tobacco and all other non-Islamic activities

8.4.1.2. Advertising means and modes which contravene the tenants of Islam

8.4.2. Media & Entertainment;

Supplemental Information Memorandum – Arvocap Mabruk Sharia Special Fund (KES)

- 8.4.2.1. Producers, Distributors and Broadcasters of Music, Movies, Television Shows and Musical Radio Shows
- 8.4.2.2. Cinema Operators;
- 8.4.2.3. Exceptions include News Channels, Newspapers, Sports Channels, Children's Channels and Educational Channels
- 8.4.3. Alcohol;
- 8.4.4. Cloning;
- 8.4.5. Financials, except:
 - 8.4.5.1. Islamic Banks
 - 8.4.5.2. Islamic Financial Institutions
 - 8.4.5.3. Islamic Insurance Companies
- Defined as a company having:
 - Shariah Committee to supervise all activities
 - All products are Islamic
 - All investments of the company are Islamic
 - Passes accounting-based screens
- 8.4.6. Gambling, Pork, Pornography, Tobacco; and
- 8.4.7. Trading of gold and silver as cash on deferred basis

During the selection process, each company's latest financial statement is reviewed to ensure that the company is not involved in any non-Shariah compliant activities, regardless of whether the latest statement is a quarterly, semi-annual or annual statement. If the latest statement is available in all three of these frequencies an annual statement will likely be used, as these are more likely to be audited. Those that are found to be non-compliant are screened out. The above industries are not considered Islamic and would not be appropriate for investment for observant Muslims.

8.5. Accounting-Based Screens

- 8.5.1. After removing companies with non-compliant business activities, the remaining companies are examined for compliance with certain financial ratios. Three areas of focus are leverage, cash, and the share of revenues derived from non-compliant activities. All of these are subject to evaluation on an ongoing basis.
- 8.5.2. Stocks deemed compliant at the prior evaluation period that exceed the maximum ratio for any accounting-based screen at the current evaluation period remain compliant if the ratio

Supplemental Information Memorandum – Arvocat Mabruk Sharia Special Fund (KES)

is within two percentage points of the maximum allowed. However, if the maximum is breached for three consecutive evaluation periods the stock will be deemed non-compliant. If any of the ratios are above the two-percentage point buffer limit, the stock is deemed non-compliant immediately.

8.5.3. Stocks deemed non-compliant at the prior evaluation period that pass all accounting-based screens at the current evaluation period remain non-compliant if any ratio is within two percentage points of the maximum allowed. However, if the stock satisfies all three ratios for three consecutive evaluation periods the stock will be deemed compliant. If all three ratios are below the two-percentage point buffer limit, the stock is deemed compliant immediately.

8.5.4. Such accounting-based screens are not applicable to companies which are run on a fully Shariah compliant basis and such companies shall be considered compliant. Such companies may be characterized by (the list below is indicative, non-exhaustive and reviewed on a case-to-case basis):

- 8.5.4.1. Having a Shariah Supervisory Board with relevant skills
- 8.5.4.2. All transactions (business and financial) are in accordance with Shariah principles
- 8.5.4.3. Incorporated and managed in a fully Shariah compliant manner

Leverage Compliance: This is measured as:

$$\text{Debt} / \text{Market Value of Equity (36-month average)} < 33 \%$$

Cash Compliance: Certain rules related to cash holdings must be met. These are:

$$\text{Accounts Receivables} / \text{Market value of Equity (36-month average)} < 49 \%$$

$$(\text{Cash} + \text{Interest Bearing Securities}) / \text{Market value of Equity (36-month average)} < 33\%$$

Revenue Share from Non-Compliant Activities: In certain cases, revenues from non-compliant activities can be tolerated, if they comply with the following threshold:

$$(\text{Non-Permissible Income other than Interest Income}) / \text{Revenue} < 5\%$$

Dividend Purification Ratio: This ratio is provided to investors for purification purposes, it is calculated as:

Dividends * (Non-Permissible Revenue / Total Revenue)

9. INCOME DISTRIBUTION

- 9.1. As guided on the Information Memorandum, under clause 15, all units in the fund will have income accumulation option i.e., any income generated from underlying invested products will be accruing to the unit holder in form on new units.

10. RISK PROFILE

- 10.1. As guided on the Information Memorandum, under clause 4.3, on various risk profiles of an investor, Arvocat Mabruk Sharia Special Fund (KES) will have an aggressive risk profile.

11. INVESTMENT OBJECTIVE AND INVESTMENT STRATEGY

- 11.1. As per the Information Memorandum under clause 4.1 on investment objectives, the fund seeks to achieve a high return through a value portfolio that is compliant with Sharia regulations.
- 11.2. Achieve capital growth, the fund will invest in different qualifying asset classes such as equities, Islamic bonds, structured product such as REITs among other sharia qualifying instruments.
- 11.3. The fund's investment strategy will be an active asset allocation in an equity's portfolio.

12. LOCK-IN PERIOD

- 12.1. As per the Information Memorandum under clause 2.8, the fund will have a lock-in period of 6 months of all new funds invested.

13. BENCHMARK

- 13.1. As per the Information Memorandum under clause 2.9, the fund will use the Dow Jones Islamic Market MENA Index as the benchmark.

14. FUND CURRENCY

- 14.1. As per the Information Memorandum under clause 2.5, Arvocat Sharia Special Fund base currency will be Kenya Shillings (KES).

15. INVESTMENT AMOUNTS

- 15.1. As per the Information Memorandum under clause 9.4, the minimum investment amount in the fund is KES 100,000.00
- 15.2. The minimum top-up is KES 100,000.00

16. FUND MANAGEMENT FEES

As per the Information Memorandum under clause 16 on charges and expenses, the below fees will be charged by the fund;

- 16.1. **Initial fee:** An initial fee calculated at 0.5% of all new invested amounts will be charged.

16.1.1. The initial fee is charged in advance and is included in the calculation of the NAV price used to make purchases when an investor is subscribing to new units

- 16.2. **Annual Management fees:** A management fee calculated at 2.0% of the average Asset Under Management is chargeable annually.

16.2.1. The annual management fee is prorated daily but payable quarterly in arrears for average assets under management held on the charge date.

16.2.2. Investors leaving before the next charge date will be charged the accrued fee as per the day of their exit in the fund.

- 16.3. **Performance fees:** A performance fee calculated at 20% of the total annual net return after subtracting all expense ratios of the average assets under management.

16.3.1. Where the funds aggregate performance for the period is negative, no performance fee is chargeable.

16.3.2. The fees are charged at the end of the fund calendar year, after determination of the period's performance return.

16.3.3. Investors leaving before the calendar year ends and before calculation of the total funds net return will have their accrued return since 1st of January or since they made their investment whichever is later calculated and performance fee, if applicable i.e., if return is positive for the period, charged.

17. RISK INFORMATION

In addition to the risks highlighted on the Information Memorandum Clause 7, below risks are inherent to this fund:

- 17.1. **Liquidity Risk:** Relates to the Fund's inability to meet its short-term financial obligations. It stems from investments in valuable assets that cannot easily be traded at market value. The Fund Manager shall periodically undertake liquidity gap analysis and other liquidity stress tests to ensure availability of sufficient liquidity as anticipated.

- 17.2. **Market Risk:** Pertains to the possibility of facing financial losses due to fluctuations in financial markets. To address this risk, the fund can minimize exposure by spreading its investments across different types of assets, utilizing hedging techniques, and

performing comprehensive market analysis to predict and respond to evolving market dynamics.

- 17.3. **Financial Risk:** Financial risk encompasses a broad range of risks related to financial instruments, market conditions, or operational factors that may affect the fund's financial stability. Mitigation strategies include robust risk management practices, stress testing, and maintaining adequate capital buffers to withstand adverse financial event.
- 17.4. **Currency Risk:** Currency risk represent the potential negative influence on investments caused by fluctuations in foreign exchange rates. These risks materialize when an investment is in a currency different from the investor's base currency, leading to shifts in the investment's worth as exchange rates change. To counter currency and exchange rate risks, employing hedging strategies such as currency forward contracts or options serves as a safeguard against unfavorable currency movements. Furthermore, spreading investments across various currencies or regions helps diminish exposure to the volatility of a single currency. Continuous monitoring of global economic and geopolitical factors, coupled with in-depth analysis of currency trends, facilitates well-informed decisions to mitigate the impact of exchange rate fluctuations on the investment portfolio. Additionally, maintaining a balanced and diversified portfolio across different currencies further minimizes the overall risk associated with currency fluctuations.