

# **FEROZE AND SHERNAZ BHANDARA CHARITABLE TRUST**

**66 B, South Circular Avenue  
DHA Phase II  
Karachi**

## **Feroze and Shernaz Bhandara Charitable Trust**

### **Investment Policy**

**Prepared by the Chief Investment Officer – JS Investments**

**In consultation with**

**The Trustees of the Trust**

### **Synopsis:**

This Investment Policy of the Trust has been prepared after thorough deliberations with the Trustees of the Feroze and Shernaz Bhandara Charitable Trust "the Trust" and as such represents the long-term aims and objectives of the Trust as they pertain to the management of Trust's finances through this SMA. In this respect, it is understood that:

1. The Trustees have recommended a long term investment horizon with a low to medium risk profile for the SMA, along with the investment objective of capital conservation and reasonable growth,
2. The Trustees would like to redeem approximately 8 percent of the Net Assets of the SMA every year and such drawdowns may be in increments or in one-go at any time during a Calendar Year. However, for abundant clarity, there is no upper limit for any drawdowns during a Calendar year,
3. In consideration of any unforeseen circumstances that may require immediate liquidity, the Trustees would like to keep 10 percent of the Net Assets of the SMA in cash or near cash remunerative instruments at all times,
4. For any investment strategy to be pursued in light of this approved Investment Policy, the Trustees of the SMA would not like the Fund Manager to pursue overly risky strategies in pursuit of short-term gains. Similarly, the Fund Manager shall not pursue frequent trading in equities as a means of attaining capital gains,
5. The Trustees are primarily inclined towards an asset allocation that is tilted towards fixed income asset class. Moreover, within the fixed income universe, their preference lies towards Sovereign debt and money market instruments. The trustees do understand the point of view of the Fund Manager that given the long term investment horizon of the Trust, the long term return of the SMA could be enhanced if a higher weight is granted towards equities. However, faced with the existing market dynamics, the Trustees would like to pursue an 80:20 fixed

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Neha F. Bawaji*



income to equities asset allocation and has requested the Fund Manager to help them review this asset allocation stance from time to time.

6. Within the recommended asset allocation, the Trustees would like the fixed income portion of the SMA to be managed based on the investment strategy of JS Income Fund; a Fixed Income CIS under the management of the Fund Manager. For equities, the Trustees would like the Fund Manager to favor dividend-paying stocks. However, Trustees understand and recognize that these guidelines are not binding as such, and they would rather like to rely on the Fund Manager's expertise for an optimal and efficient investment strategy within each asset class.
7. Provided that there shall be a likely drawdown of 8 percent per annum from the SMA, the Trustees expressed their wish for an expected return of 10 percent per year over the medium term. The Trustees expressed their full understanding of the fact that within the current circumstances, and with an 80:20 fixed income to equities asset allocation ratio, an expected 10 percent return is slightly towards the higher side. It is pertinent to note that one can reasonably expect a 5.5 percent annual after-fees net return in fixed income and while assuming a 15 percent after-fees net return in equities, the expected return that an 80:20 asset allocation policy could generate is about 7.4 percent. Trustees have acknowledged this fact and have stressed that their asset allocation decision is based on their view of the current political and economic situation only.

Based on the above guidelines and understandings, the following Investment Policy has been prepared by JS Investments for the Trust:

#### 1. Asset Allocation:

- The SMA shall have an asset allocation of 80:20 in fixed income and equities, respectively. However, the fixed income proportion may be increased to 100 percent at the discretion of the Fund Manager.
- The Trustees shall, in consultation with the Fund Manager, review and reconsider the asset allocation of the SMA at least once every year.

#### 2. Allowed Investments in Fixed Income Space:

- Fixed Income Collective Investment Schemes (CIS) managed by the Fund Manager and other third party fixed income CIS managed by reputable Asset Management Companies. Investment in fixed income CIS may comprise 100 percent of the SMA's Net Assets while exposure towards any single fixed income CIS may not exceed 50 percent of the Net Assets of the SMA. Investment in "Aggressive" fixed income CIS, either managed by the Fund Manager or by third party Asset Management Companies is prohibited. Similarly, any fixed income CIS, whether managed by the Fund Manager or by any third party Asset Management Company, with less than 5 years of performance track record is not eligible for investment by the SMA. Moreover, any fixed income CIS having an expense ratio exceeding 1.5 percent on an annualized basis, as quoted in the latest available Fund Manager Report (FMR) of that CIS, is not eligible for investment by the SMA.
- Sovereign Fixed Income Instruments, namely Pakistan Investment Bonds, Treasury Bills, GoP Ijara Sukuks and any other fixed income instruments issued by the GoP from time to time. Investment in sovereign fixed income instruments may comprise 100 percent of the SMA's Net Assets.

*Imran Danish*  
*JS Investments*



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*Nicholas F. C...*



- Corporate Bonds, including Term Finance Certificates, Sukuks, and Commercial Papers. These instruments may comprise 60 percent of the SMA's Net Assets. The minimum Entity and Instrument rating shall be A ("A") at all times for any such corporate instrument. However, provided that the instrument is rated AAA ("AAA"), entity rating shall not be required.
- Placement with Banks including Term Deposit Receipts, Daily Product, Current and Savings Accounts, and other similar savings and investment products. Placement with banks may comprise 100 percent of the SMA Net Assets and the minimum Entity rating shall be A ("A").
- Placements with Microfinance Banks including Term Deposit Receipts, Daily Product, Current and Savings Accounts, and other similar savings and investment products. Placement with Microfinance Banks should not exceed 25 percent of the SMA Net Assets at all times and minimum Entity rating shall be A- ("A minus").
- Placements through Certificate of Deposit (CODs) and Certificate of Investments (COIs) may not exceed 60 percent of the SMA Net Assets. The minimum Entity rating shall be A ("A").
- Investment in Ready-Future Spread Transactions is also deemed to be a part of the fixed income portfolio of the SMA. Investment in Ready-Future spread transactions may not exceed 30 percent of the SMA Net Assets.
- Investment in Margin Trading System (MTS) transactions may not exceed 25 percent of the SMA Net Assets.
- Investment in Reverse Repurchase Transactions may not exceed 60 percent of the SMA Net Assets at all times. In case where a reverse repurchase transaction is against a corporate fixed income instrument, the entity and instrument rating shall not be lower than AA ("double A") and AA+ ("double A plus"). Moreover, total reverse repurchase transactions against corporate fixed income instruments may not exceed 20 percent of the SMA Net Assets and any single reverse repurchase transaction against corporate Fixed Income instruments may not exceed 10 percent of the SMA Net Assets at all times. The maximum duration of a reverse repurchase transaction, other than against government securities, may not exceed 6 Months.
- At all times, 10 percent of the SMA Net Assets must be invested in Cash and/or near cash instruments. The near cash instruments include Pakistan Investment Bonds and Treasury Bills, whose remaining life does not exceed 3 Months, and cash placed in Current Accounts at Commercial and/or Microfinance Banks. Term Deposit Receipts whose remaining life does not exceed One Year and where the depository bank has explicitly stated No Fees and/or Penalties for an early breakup shall also be considered as near cash instruments. Similarly, placements in fixed income CIS shall also be considered as near cash instruments.
- Weighted Average Time to Maturity (WAM) of the fixed income portfolio, excluding any exposure in government securities, may not exceed 5 Years.
- No fixed income instrument in the SMA portfolio shall have a perpetual life or be convertible into any other equity instrument, at the option of the issuer of that instrument or at the option of a third party, or by way of any other conditionality not under the sole discretion of the Fund Manager. However, option-free, perpetual life government securities, if any, shall be exempt from this restriction.
- Exposure to any single fixed income security, excluding government securities, shall not exceed 15 percent of the SMA Net Assets. Provided that where such exposure breach is the

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*Amir J. Durrani*



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*Michael F. Casarpi*



result of a drawdown or due to reduction in market value of equity instruments held in the equity portion of the SMA, the curing period to correct such breach shall be 3 Months.

- Any fixed income security issued by any related party of the Fund Manager shall be ineligible for investment by the SMA. Moreover, this restriction shall not be exemptionable by the Trustees unless this Investment Policy is amended and reapproved accordingly by the Board of Directors of the Trust before investing in any fixed income instrument issued by any related party of the Fund Manager.


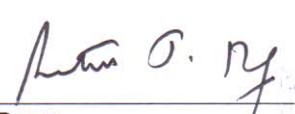
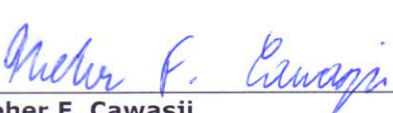
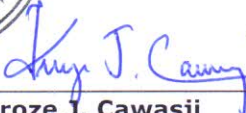

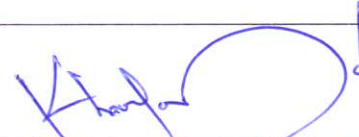
### 3. Allowed Investments in Equity Space:

- Equity, Balanced, and Fund of Funds Collective Investment Schemes managed by JS Investments and other third party CIS managed by reputable Asset Management Companies. Investment in equity CIS may comprise 20 percent of the SMA's Net Assets. However, any equity, balanced, and fund of funds CIS, whether managed by JS Investments or by any third party Asset Managed Company, with less than 5 years of performance track record is not eligible for investment by the SMA.
- The equities, including stocks and right shares, and specifically excluding preference shares, listed on the Pakistan Stock Exchange. However, exposure towards any single stock, including any associated right shares, may not be higher than 5 percent of the Net Assets of the SMA or 20 percent of the equity portion of the SMA, whichever is lower, and where equity portion is the equity investment limit as granted under the asset allocation policy of the SMA.
- The SMA shall not participate in an IPO or private placement of any equity security and this restriction shall not be exemptionable by the Trustees unless this Investment Policy is amended and reapproved by the Board of Directors of the Trust before participation in an IPO or private placement.
- Any equity instrument issued by any related party of the Fund Manager shall be ineligible for investment by the SMA. Moreover, this restriction shall not be exemptionable by the Trustees unless this Investment Policy is amended and reapproved accordingly by the Board of Directors of the Trust before investing in any equity instrument issued by any related party of the Fund Manager.
- Equity exposure of the SMA may not exceed the equity investment limit granted under the asset allocation policy of the SMA, at all times, and where such exposure has exceeded due to increase in market values of the underlying equity securities or due to any drawdowns, then the curing period for the alignment of equity exposure shall be 30 days from the date of any such breach in exposure. The Fund Manager, in normal circumstances, shall be obliged to bring the equity exposure in order within the stipulated time period and exemption requests from the Trustees shall only be sought, and always in writing, where any extraordinary circumstances exist.
- Total entity exposure, including equity and fixed income exposure, of the SMA may not exceed 20 percent of the Net Assets of the SMA. However, provided the entity instrument rating is AA ("double A") and AA+ ("double A plus"), the total entity exposure may not exceed 25 percent of the Net Assets of the SMA.


#### 4. Performance Reporting, Review and Meetings:

- JS Investments shall provide report(s) to the client in relation to its portfolio in Pakistani Rupees (PKR) on a fortnightly basis in electronic form as well as on a monthly basis in physical form. However, the portfolio Transaction summary shall be provided on weekly basis in electronic form.
- The report(s) shall at minimum contain the following information:
  - 1) Performance review;
  - 2) Details and composition held in the portfolio including value and description of the portfolio, value of each security held in the portfolio and cash-balance as on the date of such report(s);
  - 3) Details of benefits received during that period including interest, dividend, bonus shares, and right shares;
  - 4) Transactions undertaken during the period including date of transaction and details of purchases and sales;
  - 5) Details of fees charged to the client;
  - 6) Taxes and charges levied; and
  - 7) Any other information as may be required by applicable laws, rules and regulations that may be determined by JS Investments and agreed with the client.
- The performance shall be reviewed at least once annually or at least thrice in two years in a meeting with the trustees of the Trust along with the review of asset allocation to achieve the long-term objectives of the SMA client.

1.  <b>Rustom M. Darrah</b> (Chairman)	 <b>Rustom J. Boga</b> (Vice Chairman)
3.  <b>Meher F. Cawasji</b> (General Secretary)	4.  <b>Feroze J. Cawasji</b> (Treasurer)
5.  <b>Hasnain Raza Nensey</b> (Chief Executive Officer – JS Investments)	6.  <b>Muhammad Khawar Iqbal</b> (Chief Financial Officer– JS Investments)