



FINANCIAL  
BUILDING & PRESERVING YOUR WEALTH

## EXPLANATORY MEMORANDUM ■

Important - if you are in any doubt about the contents of this offering document, you should seek independent professional financial advice.

# JB VANTAGE VALUE EQUITY FUND

MARCH 1  
2013

The JB Vantage Value Equity Fund is intended for long term investment in the equity market by investors who are mindful of price—because like many individuals making a big purchase, the Fund's investment managers are price conscious. Investors who have a long-term investment goal and a tolerance for equity market volatility may wish to consider this option.

■ FUND PROFILE - GROWTH

G·I·P·S<sup>®</sup>  
Global Investment Performance Standards



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### Key Fact Sheet

Name	JB Vantage Value Equity Fund ("the Fund")
Nature of Fund	Open Ended Unit Trust, offering units for sale or redemption every business day
Fund Manager	JB Financial (Pvt) Ltd.
Trustee/Custodian	Deutsche Bank AG
Investment Plan	Invests in shares with "value" characteristics but may also hold debt securities during certain market conditions <sup>1</sup>
Minimum Initial Investment	Rs. 1,000,000
Subsequent Investment	Rs. 100,000
Distribution Policy	Annual <sup>2</sup>
Inception Date	May 2012
Management fee and Trustee fee	1.50% p.a. (plus applicable taxes)
Registrar Fee	None
Front-End Fee	2% <sup>3</sup>
1 Year Early Exit Fee	2% (for redemptions within first 365 days)
Taxation of distributions	Tax free in the hands of unit holders
Price	Latest Available Manager's Selling Price

<sup>1</sup>Regardless, of market conditions, equity (stock market) exposure of the Fund will never drop below 40%.

<sup>2</sup>The Fund may distribute all or part of its net income (interest or dividend) and/or net realized capital gains annually.

<sup>3</sup>A 2% sales charge is applied at the time of purchase which is deducted from the investment amount and as a result lowers the size of the investment.

#### WHAT DOES THE FUND INVEST IN?

##### INVESTMENT OBJECTIVES

The fundamental investment objective of the JB Vantage Value Equity Fund is to achieve long term capital appreciation through investments in securities of companies which the portfolio advisor determines have strong appreciation potential that is not reflected in the trading price of such securities.

##### INVESTMENT STRATEGIES

The Fund's Manager (or portfolio advisor) seeks to achieve the fundamental investment objective of the Fund by investing in companies that are viewed to have upside potential and are currently undervalued or out-of-favour.

The Fund may invest in all categories of equity related securities of companies including voting and nonvoting common shares, preference shares, rights, warrants and other equity related issues.

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The portfolio advisor uses a quantitatively driven investment approach that seeks to identify equity securities (shares) that are selling below their true worth. In other words, the fund's advisor focuses on securities that, in the advisor's judgment, are misunderstood and currently underappreciated by the market.

The Fund is typically concentrated in a small number of large and mid-capitalization companies whose equities are trading at prices that are below average in relation to such measures as earnings and book value. However, in some market conditions, the Fund may invest a portion of its assets in short-term or other debt securities that allow the Fund to enhance its return while maintaining the quality of selection of its investment portfolio.

Part of the fund's strategy is to seek to be ahead of the market, investing in securities that are temporarily out of favor, but that the fund's advisors believe will eventually become profitable investments. This approach can lead to greater short-term volatility because it may take time for the stock market to recognize a stock's value.

Preferred companies possess solid or improving business models and capable management teams. Research is done internally, using fundamental analysis that is updated through regular management interviews. The portfolio advisor performs extensive and ongoing analysis on all target companies in search of return enhancement.

Generally, the Fund employs a "buy-and hold" strategy.

### What are the risks of investing in the Fund?

#### Risk Potential



Equity funds are generally expected to be of high risk and/or a "growth" category of investment. This is due to the fact that the Fund invests for capital growth or appreciation, by trying to grow the investor's money over time through investment in equities. That is,

growth is generated through capital gains – profits earned from buying and selling equity securities. Equity funds can be managed actively or passively and derive their return primarily from price appreciation of the underlying investments, with a secondary reliance on dividend income. Therefore equity fund has a higher susceptibility to price volatility, both on the upside as well as the downside. The return from the Fund will be made up of the movement in the price of the units as well as any distribution paid out. The overall return of the Fund will fluctuate in line with changes in macroeconomic environment and growth prospects of the companies attributable to the underlying investments. Investors in equity funds face the following three types of risk:

#### 1. Market risk

This risk applies to the listed share market as a whole and is the chance that share prices overall will decline. Share markets tend to move in cycles, with periods of rising prices and periods of falling prices. The value of the fund's portfolio may be affected by changes in the share market. Although an equity fund's value can rise and fall quickly (and dramatically) over the short term, historically shares have performed better over the long term than other types of investments — including corporate bonds, government bonds, and treasury securities. Overall "market risk" poses the greatest potential danger for investors in equity funds. Share prices can fluctuate for a broad range of reasons — such as the overall strength of the economy or demand for particular products or services.

#### 2. Investment style risk

This is the chance that returns from large- and mid capitalization value stocks, the value style, will trail returns from the overall equity market. While a "value" conscious approach may provide a less bumpy ride in the share market, the fund may not keep up in a strong bull market.

#### 3. Manager risk

Manager risk, which is the chance that poor security selection or focus on securities in a particular sector, category, or group of companies on the part of the portfolio advisor will cause the Fund to underperform relevant benchmarks or other funds with a similar investment objective.

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Other risks of investing in the unit trusts may include:

- ✓ Large investor risk
- ✓ Liquidity risk

The above risks along with the specific regulatory measures in place for their mitigation are expounded on page 4 and 5.

### WHO SHOULD INVEST IN THE FUND?

The Fund may be suitable for medium-term to long term investors who:

- ✓ Wish to invest in the Sri Lankan share market but at a sensible price
- ✓ Desire equity exposure to be based on fundamental analysis of companies and value characteristics rather than short term trading
- ✓ Are willing to accept a moderate to high level of risk

### DISTRIBUTION POLICY

The Fund may distribute net income and net realized capital gains annually (if applicable).

#### How to invest in the Fund

Please read this Explanatory Memorandum carefully and wholly, then complete, sign and deliver the JB Financial Unit Trusts new account application together with a Purchase Form. Forms and explanatory memoranda are available

- ✓ From our office: 150, St. Joseph Street, Colombo 14, Post Code: 01400, Sri Lanka.
- ✓ By post, please call 112 490 900 to request a copy.
- ✓ From a JB Financial distribution agent – Call 112 490 900 to set up an appointment (Colombo area only).
- ✓ From our website [www.jbfinancial.lk](http://www.jbfinancial.lk)

### HOW TO FIND THE DAILY FUND PRICES

Fund prices will be published in the Daily Mirror and Daily News (generally Tuesday to Saturday barring holidays) and on the JB Financial website [www.jbfinancial.lk](http://www.jbfinancial.lk)

### WHAT FUND EXPENSES ARE INDIRECTLY BORNE BY INVESTORS

While unit trusts are a cost effective way to invest in

securities, it does not mean they are cost free. Unit trusts pay for some expenses out of fund assets and investors indirectly pay for these expenses through lower returns. Service and administrative costs of running the Fund such as recordkeeping, brokerage, audit, legal, investor communication, financial reporting and statutory fees and expenses are paid by the Fund and therefore indirectly borne by investors.

The Manager may pay sales commission to authorised agents (if applicable) but such payments will **not** be borne by the fund

### WHAT IS A UNIT TRUST AND WHAT ARE THE RISKS OF INVESTING IN A UNIT TRUST?

#### What is a unit trust?

A unit trust is a vehicle that pools money from many individual investors to buy securities. *The securities in which the JB Vantage Value Equity Fund may invest are common shares, voting and non voting, preference shares, and other equity securities. In addition to government securities (treasury bills and treasury bonds), bank deposits, repurchase agreements and high quality corporate debt instruments may be included in the portfolio from time to time.*

Unit trusts have different investment objectives, some have the objective of achieving long-term capital growth by investing in equities, and others have the objective of generating regular income payments by investing in coupon-paying securities. Still others may invest in a mix of equities and bonds to satisfy the twin objectives of growing investors' money over time and providing regular income in the near term. *This fund invests for long term capital gains by investing in high quality equity securities paying less attention to generating income.*

A professional money manager or portfolio advisor makes buy-and-sell decisions of securities in adherence to the investment objective. The values of these securities may vary responding to changes in interest rates, economic conditions and related capital market events. *The portfolio advisor closely monitors and studies the Sri Lankan share (equity) market and economic environment and takes a view on long term growth prospects of the economy, the sectors and companies that make it up, and demand for their products and services when investing the Fund.* Unit trusts issue units and record the investor's share

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of the units it has issued. The greater the investments the larger the units owned and greater the share of the unit trust's income, gains and losses. In order to withdraw an investment from a unit trust, the units owned can be redeemed by selling them back to the unit trust management company.

Unit trust investments are not guaranteed. **The prices of units can move down as well as up from time to time due to market events.**

### ***What are the risks of investing in a unit trust?***

Risk is often measured through volatility or the extent to which the value of a unit trust's units fluctuates. As a general rule, investments with the greatest risk also have the greatest potential return. While this risk/return trade-off has generally been true over periods of five years or longer, there have been times in the past when the least volatile investments have been the most rewarding, particularly over periods of a year or less.

Each investor has a different tolerance for risk. Some investors are significantly more conservative than others when making their investment decisions. It is important to take into account one's own comfort with risk as well as the amount of risk suitable for one's financial circumstances and goals. The risks associated with investing in a unit trust include the risks associated with the securities in which the unit trust invests.

*In the case of the JB Vantage Value Equity Fund the volatility in the value of the units is higher as it invests in equities - which have a higher volatility. The Fund's price will move to reflect changes in the value of the underlying shares purchased by the Fund. The value of these underlying securities will move as they reflect changes in interest rates, exchange rates, economic conditions in Sri Lanka and abroad, and news about the inputs into and demand for these companies' products and services. When the value of the Fund's units change, it can make the individual investor's portion of the pool rise or fall in value.*

*Generally the upward volatility in the Fund's price will reflect positive performance by the Fund.*

### **DESCRIPTION OF FUND SPECIFIC RISKS AND THEIR MITIGATION**

The following is a summary of the various types of investment risk that may be applicable to the Fund.

### **Company risk**

This is the risk that certain factors affecting a specific company may cause its equity securities to change in price in a different way to the general movement in the share market as a whole. For example, the profits and share price of a firm selling an unusually large portion of its output to foreign customers are subject to certain factors, such as changes in foreign exchange rates, which are less important to other companies.

### **Large investor risk**

Securities of unit trusts may be purchased and sold by "large" investors, such as institutional funds and investment portfolios. If a large investor redeems a portion or all of its investment from a unit trust, that fund may have to incur capital gains and other transaction costs in the process of making the payout. In addition, some securities may have to be sold at unfavorable prices, thus reducing the fund's potential return. Conversely, if a large investor was to increase his/her investment in a fund, that fund may have to hold a relatively large position in cash for a period of time while the portfolio advisor attempts to find suitable investments. This could also negatively impact the performance of the fund.

### **Liquidity risk**

Liquidity risk is the possibility that a unit trust will not be able to convert its investments to cash when it needs to or will not be able to do so at a reasonable price. Some securities are illiquid because of legal restrictions, the nature of the investment itself, settlement terms, a shortage of buyers or other reasons. Generally, investments with lower liquidity tend to have more dramatic price changes and may subject the holder to losses or additional costs.

### **Default risk**

The risk that companies will be unable to make the required payments on their debt obligations and therefore fall into financial distress. Such a default will have an adverse impact on the company's share price as it indicates low profitability and a low prospect that its equity shareholders will reap any benefits from their shareholding.

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### ***Repurchase and reverse repurchase agreements risk***

Sometimes unit trusts enter into what are called treasury bill repurchase transactions and reverse repurchase transactions. A repurchase transaction is where a fund sells a treasury bill that it owns to a third party for cash and agrees to buy the same security back from the same party at a specified price on an agreed future date. In a reverse repurchase transaction, a fund buys such a security at one price from a third party and agrees to sell the same security back to the same party at a specified price on an agreed future date.

The risk with these types of transactions is that the other party may default under the agreement or go bankrupt. However, with the electronic lodgment of GOSL treasury bills and bonds on LankaSecure in 2004 all such counter party risk of repurchase and reverse repurchase transactions is effectively eliminated.

### ***INVESTMENT RISK MITIGATION MEASURES IMPOSED BY THE UNIT TRUST CODE 2011***

The SEC Unit Trust Code 2011 and Circulars specifically addresses the above unit trust specific risks by regulation and limitation on investments.

### ***Company risk/default risk mitigation/trading***

#### ***liquidity***

- (a) The investment in listed equity of an issuer shall not exceed 15% of the NAV of the Fund or % of the approved index's market capitalization whichever is higher, subject to maximum 10% of the issuer's voting share capital.
- (b) IPOs, Offers for Sale and Rights Issues shall not exceed 15% of the NAV of the Fund per issuer
- (c) The investment in listed debt of a single listed or unlisted entity shall not exceed 25% of the NAV of the Fund.
- (d) The investment in unlisted debt of a single listed or unlisted company with a rating, endorsement or guarantee shall not exceed 15% of the NAV of the Fund.
- (e) The investment in unlisted debt of a single listed company without a rating, endorsement or a guarantee shall not exceed 10% of the NAV of the Fund.
- (f) The single issuer total exposure (debt and equity) exposure shall not exceed 25% of the NAV of the Fund.
- (g) Exposure to any licensed commercial bank or specialized bank together with the exposures on guarantees and endorsements shall not exceed 25% of the NAV of the Fund.
- (h) The limits above apply post conversion to any quasi equity convertible securities and based on exercise price to any exercise of derivatives or warrants.

### ***Large Investor risk***

Where a large investor wishes to redeem units which amount to 3% or more of the NAV of the unit trust, the unit holder shall give 14 market days written notice prior to the date of redemption to the unit trust management company.

### ***Liquidity risk***

The Fund shall maintain a level of liquidity amounting to at least 3% of the deposited property in cash or near cash to assure ease of redemptions. The expression "near cash" means liquid investments that are readily convertible into known amounts of cash without any risk of change in value as defined in the Unit Trust Code 2011.

The Fund is also permitted to borrow up to 15% of the deposited property for short term liquidity purposes such as the timely repayment of redemption requests. In addition, to ease liquidity tightness due to redemptions the Unit Trust Code specifies that if on a Valuation Day, total redemption requests from the fund exceed 10% of the NAV of the fund, the Fund may defer redemption of the excess over 10% to the following Valuation day.



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### ORGANIZATION AND MANAGEMENT OF JB FINANCIAL UNIT TRUSTS

The following table sets out the parties that are involved in managing or providing services to the Funds and the functions they perform.

<b>Manager.</b>  JB Financial (Pvt) Ltd. 150 St. Joseph Street Colombo 14	As manager, JB Financial manages the overall day-to-day affairs of the Fund.
<b>Trustee</b>  Deutsche Bank AG 86, Galle Road Colombo 3	Deutsche Bank AG is the trustee (the “Trustee”) of the JB Financial Unit Trusts and holds actual title to the property of the JB Financial Unit Trusts – the cash and securities – on behalf of unit holders. When you invest in a Unit Trust you are buying units of a trust  The Trustee is responsible for the oversight of the JB Financial Unit Trusts.
<b>Custodians</b>  Deutsche Bank AG 86, Galle Road Colombo 3	The custodian has physical and book-based custody of the assets of the fund.
<b>Registrar and Transfer Agent</b>  JB Financial (Pvt) Ltd. 150 St. Joseph Street Colombo 14	As registrar and transfer agent, JB Financial maintains all unit holder records, processes purchase, switch, and redemption orders, and issues investor account statements and financial reports to unit holders on behalf of the Funds.
<b>Portfolio Advisor</b>	The portfolio advisor provides investment advice and portfolio management services to the Funds. The portfolio advisor is bound by the CFA Institute* Code of Ethics and Standards of Conduct and the CFA Asset Manager’s Code.
<b>Auditors</b>  Ernst & Young 201 De Saram Place Colombo 10	The Auditors conduct an audit of the financial records of the Funds and report to the unit holders on the Funds’ annual financial statements in accordance with Sri Lankan accounting and auditing standards.

\* CFA Institute, a global, not-for-profit organization comprising the world’s largest association of investment professionals, is dedicated to developing and promoting the highest educational, ethical, and professional standards in the investment industry worldwide

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### **Other risk mitigation measures**

Unless permitted by the Commission, the Manager shall not invest the Fund in:

- Commodities, future and options
- Real estate in its own name
- Investments to gain management control of a company the Fund has bought shares in
- Unlisted securities
- Assets involving the assumption of unlimited liability

### **PURCHASES AND REDEMPTIONS**

#### **HOW ARE A FUND'S UNITS PRICED**

All transactions are based on the price of a Fund's units – the net asset value per unit ("NAV"). The valuation day for each Fund is the day on which a NAV is calculated ("Valuation Date"). The NAV for each Fund is generally calculated daily at 4:00 PM. The NAV can change on each Valuation Date.

A separate NAV is calculated for each JB Financial Unit Trust by taking the Fund's assets less liabilities and deducting from this amount all duties and charges relating to trading. The assets of the Fund are primarily shares listed on the Colombo Stock Exchange, valued every trading day. The NAV per unit is then derived by dividing the NAV of the trust by the total number of units outstanding for the trust.

#### **FORWARD PRICING**

Both buy and sell transactions are traded at prices next determined, that is, based on the NAV of the Fund at the end of the day. The dealing prices for transaction made will only be known at the end of each business day.

There are two prices for a unit trust – the Manager's Selling price and the Manager's Buying price. The Selling price is the price at which the Manager sells its units to unit holders. The Buying price is the price at which the Manager buys back units. These prices are derived from the NAV but include any buying or selling charges (transaction costs) within the fund as well as any front end or early exit fees.

#### **HOW TO PURCHASE, SWITCH OR REDEEM UNITS**

Purchase, switch or redemption of units can be done by completing the relevant Purchase, Switch or Redemption form:

#### *In person*

- ✓ Call over at 150, St Joseph Street, Colombo 14.
- ✓ Through a JB Financial distribution agent. Please call 11 2 490 900 to locate a JB Financial Planner in your area, or visit [www.jbfinancial.lk](http://www.jbfinancial.lk)

#### *By post*

- ✓ Please mail to:  
The Transaction Officer  
JB Financial (Pvt) Ltd.  
150, St Joseph Street, Colombo 14

#### *By telephone*

- ✓ Contact the Customer Relationship Officer, JB Financial on 112 490 900 if applicable

(This last option is only available if authorization to accept fax or email instructions has been ticked and signed in the JB Financial Unit Trusts application form.) Full instructions including completing the section entitled Payment Information, and a signature for verification must be provided when completing the Purchase and/or Redemption forms.

#### **Short-term trading**

Unit Trusts are typically considered long-term investments. Short-term or excessive trading to time the market can negatively affect the investment performance or increase the administrative costs of a fund, affecting all unit holders in that fund, and interfere with the long-term investment decisions of the manager of that fund. JB Financial has adopted policies and procedures to monitor, detect and deter short-term or excessive trading. Any switch or redemption of units of the Fund up to 365 days from the date of purchase, except units purchased through distribution/dividend reinvestment, may be charged a short-term trading fee (Early Exit Fee) of 2%.

#### **PURCHASE**

The units of the Fund offered under this Explanatory Memorandum are offered on a "front-end load" basis – that is, units are sold with a commission or sales charge at the time of initial investment. The purchase price of units will be the Manager's Selling Price next determined after receipt of funds.

Please note that purchase orders are processed upon realization of funds. A new account will be opened within one business day of receiving an application.

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All duly completed orders will be processed within one business days of receipt of realized funds. Fund prices may change within this time period.

Confirmation of purchase of units of a Fund duly dated will be dispatched within five business days of the purchase.

### MINIMUM INITIAL INVESTMENTS AND ACCOUNT BALANCES

Minimum initial investment and subsequent transaction criteria must be met in order to purchase units of a Fund. Minimum initial investment and account balance levels are established in an effort to control the cost of servicing accounts which impacts all unit holders.

Minimum Initial Investment	Minimum Additional Investment
Rs 1,000,000	Rs. 100,000

The above minimums do not apply to units purchased through the reinvestment of distributions/dividends.

### SWITCH

All or a portion of units held in one JB Financial unit trust can be redeemed to buy units of another JB Financial unit trust as long as the minimum initial investment, minimum account balance and other requirements are met. This is called a switch.

An early exit fee may apply however if a switch out of the Fund occurs up to 365 days after the units were purchased. See **Short term Trading**.

When an order to switch is received by a completed Switch Form, units in the original unit trust are redeemed and the proceeds used to buy units of the new one.

### REDEMPTION

Units can be redeemed in full or part. The redemption price of a unit will be the relevant Manager's Buying price next determined after receipt of the Redemption Form.

For Redemption requests received before 12:00 PM on a business day, proceeds will be dispatched within six

(06) business days (market days), provided all sections are completed and signed for verification. Payment will be made to the first holder on record (if applicable), by direct deposit if a bank account is indicated in the application, to the linked JB Securities brokerage account (if applicable) or failing which by crossed cheque sent by ordinary post to the address on file.

As per the sec rule on "large investors" described on page 6 above, investors redeeming 3% or more of the NAV of the fund are required to give a minimum fourteen business (14) business days (market days) notice prior to the redemption day. Thereafter payment will be made as above.

Payment made by direct deposit to the bank account on file is the quickest way to receive redemption proceeds.

### How we process your purchase or redemption orders

If an order is received before 12:00 PM on a Valuation Date, the Manager's Buying and Selling prices will be based on the NAV of that day.

If an order is received after 12:00 PM on a Valuation Date, or at any time on a day that is not a Valuation Date, the Manager's Buying and Selling price will be based on the NAV of the next Valuation Date.

The company has the right to reject a purchase order within one business day of receiving it. If an order is rejected the funds will be returned immediately without interest. Accepted orders will be confirmed via a transaction receipt that will act as the proof of the transaction.

Generally, the information required for redemption will include:

- ☐ Fund name and account number;
- ☐ Rupee amount or number of units to be redeemed;
- ☐ Payment instructions
- ☐ Signatures of all account owners exactly as registered;

Units are held in scrip less form in an electronic ledger therefore no certificates are issued upon purchase. A record of the number of units owned and their value will be sent out every six months.

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### REGISTER

A Register of Unit Holders is maintained in electronic form and contains the beneficiary's name, address and quantity of units owned. The person named in the Register is the only one who will be recognized by the Trustee and Managers. Any change of name or address must be immediately advised in writing, together with any supporting documentation that may be required. Units are freely transferrable.

### FINANCIAL REPORTING

An annual report that includes the audited financial statements of the Fund will be made available to unit holders. The financial year end for this Fund is 31 December. A half yearly financial statement will also be made available.

### SUSPENSION OF DEALING

Under specific exceptional circumstances detailed in the Trust Deed, dealing in units may be temporarily

suspended. However, this may only be done with the prior written consent of the SEC and the Trustee.

### RIGHTS OF UNIT HOLDERS

Unit Holders have the right to

1. Redeem or transfer units registered in their name.
  2. Receive annual and half yearly financial information of the fund.
  3. Participate and vote at unit holder meetings.
- For further information on rights of unit holders, please refer to the Fund Trust Deed.

### FEES AND EXPENSES

The following table lists the fees and expenses that are payable in a unit trust. The unit holder pays some of these expenses directly. Others are payable by the Fund, which reduces the value of the investments in the Fund.

### Fees and expenses payable by the unit trust

Management fees	All unit trusts pay an annual management fee. This fee is calculated and accrued daily and paid monthly. See the Key Fact Sheet on page 2 above for the management fee that is payable by the Fund.
Portfolio Transaction Costs	Each unit trust may pay costs associated with portfolio transactions, including, but not limited to, brokerage commissions to purchase and sell portfolio securities and research and execution costs, if any.
Operating Expenses	Operating expenses of the Fund which include the cost of preparing and modifying the trust deed and other documents, professional fees, taxes and duties, unit holder communication and payout costs - including preparing, printing and disseminating of financial reports, account statements and confirmations and other disclosure documents; stamp duty, regulatory filing fees, unit holder meeting cost and bank charges (if applicable) will be payable (per item 12 (1) of the Unit Trust Code 2011.
Trustee fee	This fee is calculated and accrued daily and paid monthly. See the Key Fact Sheet on page 2 above for the trustee fee that is payable by the Fund.
Taxes	Any taxes and other duties payable in the establishment, execution, management or termination of the unit trust.
Registrar fee	The custodian fee is Rs. 180,000 per annum *Taxes such as VAT may be applicable on fees.

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### DIVIDEND DISTRIBUTIONS

Distributions by a unit trust may be received as cash or by reinvestment in additional units. Distributions are payable to unit holders on record as at the close of business on the Valuation Date immediately preceding the distribution date. The distribution frequency for this unit trust is annual and the unit holder will receive a statement indicating the number of units allotted and how the distribution has been paid.

If automatic reinvestment was requested, additional units will be allotted at the applicable NAV on the next Valuation Day following the dividend declaration date. Front end load fees are not applicable to the reinvestment of dividends. Accounts belonging to minors will automatically reinvest dividends in additional units. Unit holders may also choose to reinvest their distributions in any other JB unit trust.

If cash was requested, payment will be made to the first holder on record (if applicable), by direct deposit to the bank account indicated in the application or failing which, by crossed cheque sent by ordinary post to the address on file.

### MANAGER'S AND TRUSTEE'S COVENANTS MANAGER'S COVENANTS

1. Carry on the business of the Trust efficiently and in the interests of the Unit Holders
2. Hand over any money to the Trustee promptly
3. Redeem units when requested by Unit Holders
4. Provide information required by Trustee and Commission
5. Appoint a Compliance Officer
6. Give Unit Holders 21 days' notice of any meeting of Unit Holders

### TRUSTEE'S COVENANTS

1. Take reasonable care in dealing with the Trust's activities
2. Keep the books of the Trust
3. Have the Trust audited annually
4. Prepare and act according to a Code of Conduct

### TAXATION CONSIDERATIONS

#### *Income tax considerations for individual investors*

All dividend distributions paid to unit holders either in cash or reinvestments in additional units are tax free in the hands of unit holders.

Profits and income from the redemption of a unit in a unit trust are exempt from tax.

#### *Taxation of the Fund*

##### a. Tax liability of the Fund

- i. Income Tax - The Fund is liable to corporate tax at 10% on its taxable profit (Inland Revenue Act No. 10 of 2006)
- ii. Income derived from investment in listed debentures and equity is tax exempt - Interest income derived from investment in listed corporate debt securities is exempt from tax (expected) effective January 2013.  
Income from sale of quoted shares is exempt from tax. (Amendment to Inland Revenue Act 10 of 2007).
- iii. VAT on financial services – The value addition attributable to a unit trust (mutual fund) from interest, dividend or dealing in debt instruments is excluded from the scope of financial VAT (Amendment to Value Added Tax Act No 8 of 2012)
- iv. Fees for the provision of fund management services to the fund are exempt from VAT (expected) effective January 2013.

##### b. Taxation liability of unit holders

- i. Dividend Distributions  
Distribution in the form of dividends is exempt from tax (Inland Revenue Act No. 10 of 2006 and Inland Revenue (Amendment) Act No. 10 of 2007).
- ii. Redemption of Units  
All income (interest and capital gains) from redemption proceeds of units are exempt from tax. (Amendment to Inland Revenue Act No 8 of 2012. See also Inland Revenue Act No. 10 of 2006 and Inland Revenue (Amendment) Act No. 10 of 2007)
- iii. Withholding tax - none

The above is a general summary of the sections relating to unit trust investments of the Sri Lanka Inland Revenue Act. If one is doubtful of one's tax position vis a vis investments in units trust one should consult one's tax advisor for more complete advice.

## ■ EXPLANATORY MEMORANDUM

### GIPS COMPLIANCE

JB Financial claims compliance with the Global Investment Performance Standards (GIPS®).

The Global Investment Performance Standards (GIPS Standards) is a practitioner driven ethical set of principles and a standardized industry-wide approach to calculating and reporting returns to prospective clients. The GIPS standards are based on the ethical principles of fair representation and full disclosure and provide three important benefits to prospective investors

1. Confidence in the integrity of performance presentation
2. Comparability between performance of compliant firms worldwide in a fair and comparable format.
3. Reliability and consistency of provided return calculations .

### OTHER DISCLOSURES

JB Securities (Pvt) Limited, a connected party of JB Financial, has been licensed as an approved broker by the Securities and Exchange Commission of Sri Lanka Act. No. 36 of 1987. The Fund may transact in shares of listed companies through JB Securities (Pvt) Limited in the normal course of business.

### MANAGER AND TRUSTEE

#### *Manager*

JB Financial is a company in existence since 1994 and is under the umbrella of the Jafferjee Brothers group and owned largely by the same individual shareholders. JB Financial is an SEC licensed Investment Manager in addition to being an SEC licensed Unit Trust Manager and is engaged primarily in the business of fund management. JB Financial has sufficient reserves at its disposal to enable it to conduct its business effectively and meet its liabilities. In particular JB Financial has an issued and paid up capital and capital reserves in excess of the minimum required of Rs. 25 million. The company maintains at all times a positive net asset position.

The directors of JB Financial are of good repute and possess the necessary experience for the performance of their duties.

The key personnel of JB Financial possess over ten years of experience each in fund management,

advising and managing high net worth and corporate/ institutional funds. Experience includes expertise gained in the money market instruments.

JB Financial has sufficient human resources and technical resources at its disposal to carry out both its front office and back office functions and does not rely solely on the expertise of one individual to conduct its business. In particular the company possesses proprietary technical resources for investor account maintenance, record keeping and internet transacting. The overall integrity of the company is safeguarded through a system of internal controls and written procedures in place which are regularly monitored by senior management to ensure timeliness and compliance. Conflicts of interest are addressed to safeguard investor interests.

#### *Trustee*

Deutsche Bank AG, Colombo Branch will act as Trustee and Custodian to the JB Vantage Value Equity Fund.

Deutsche Bank AG, Colombo branch is 100% owned by Deutsche Bank AG and provides administrative services across a range of financial structures, specializing in Custody and related Trustee Services. Deutsche Bank AG is one of the world's leading international financial service providers, with approximately Euro 1,128 billion in assets and over 68,000 employees in 74 countries worldwide. A lean, dynamic and focused universal bank Deutsche Bank AG is a global leader in Corporate Banking and Securities, Transaction Banking, Asset Management and Private Wealth Management.

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.





The Directors of the Management Company accept full responsibility for the accuracy of the information contained in this Explanatory Memorandum and confirm having made all reasonable enquiries that to the best of their knowledge and belief there are no other material facts the omission of which would make any statement therein misleading.

The Trustees hereby declare and certify that they have read and agreed with the representations herein.

The Trustee and Managers declare that they will carry out transactions 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;

They further declare that the requirements of Securities and Exchange Commission's issued guidelines have been complied with.