



SCHEME OF MERGER

(Presented for the Approval of the Unit Holders)

OF

**786 RISING STAR FUND (formerly: Dawood Islamic Fund)
(AN OPEN-END ISLAMIC ASSET ALLOCATION SCHEME)**

And

**FIRST DAWOOD MUTUAL FUND
(AN OPEN-END BALANCED SCHEME)**

WITH AND INTO

**786 SMART FUND (formerly: Dawood Income Fund)
(AN OPEN-END ISLAMIC INCOME SCHEME)**

Dated: _____, 2019

Managed By

786 INVESTMENTS LTD

Trustee

**MCB FINANCIAL SERVICES LIMITED
(TRUSTEE OF 786 SMART FUND)**

AND

**CENTRAL DEPOSITORY COMPANY OF PAKISTAN LIMITED
(TRUSTEE OF 786 RISING STAR FUND AND FIRST DAWOOD MUTUAL FUND)**



INFORMATION ABOUT 786 SMART FUND (786SF), 786 RISING STAR FUND (786RSF) AND FIRST DAWOOD MUTUAL FUND (FDMF)

Management Company

786 Investments Limited-786IL is a Non-Banking Finance Company, licensed by the Securities and Exchange Commission of Pakistan to manage open end funds and Investment Advisory. 786 Investments Limited is a public listed company quoted on Pakistan Stock Exchange Ltd.

Board of Directors of the Management Company

Ms. Shafqat Sultana	Chairperson
Ms. Charmain Hidayatullah	Director
Mr. Ahmed Salman Munir	Director
Mr. Tahir Mehmood	Director
Syed Farhan Abbas	Director
Syed Shabaha Hussain	Director
Ms. Tara Uzra Dawood	Chief Executive Officer

Trustee

CENTRAL DEPOSITORY COMPANY OF PAKISTAN LIMITED a public limited company incorporated in Pakistan under the Companies Ordinance, 1984, having its registered office at CDC House, 99 B, S.M.C.H.S., Main Shahrah-e-Faisal, Karachi - 74400 and registered to act as central depository company under Rule 4(3) of the Central Depository Companies (Establishment & Regulations) Rules, 1996 (hereinafter called the "**Trustee**" which expression where the context so permits shall include its successors in interest and assigns) of the other part.

Trustee

MCB Financial Services Limited was formed and incorporated as a non-listed public limited company, and licensed by the Securities & Exchange Commission of Pakistan (SECP) for commencing the business under the Rules and Regulations of the Regulatory bodies of Pakistan. It is a wholly owned subsidiary of MCB Bank Limited.

Auditors

786 Smart Fund	Grant Thornton Anjum Rahman (Chartered Accountants)
786 Rising Star Fund	Riaz Ahmed & Co (Chartered Accountants)
First Dawood Mutual Fund	Riaz Ahmed & Co (Chartered Accountants)

Legal Advisors

Rauf Ghaffar Law Associates (Advocates & Consultants)
Suite # 65, 5th floor, Fareed Chamber,
Abdullah Haroon Road, Karachi



STATEMENT EXPLAINING THE EFFECTS OF THE SCHEME OF MERGER

Background:

786 Investments Limited (the management company) had launched 786 Smart Fund (Formerly Dawood Income Fund) on May 19, 2003 with the objective to provide competitive risk adjusted returns to its investors by investing in a diversified portfolio of long, medium and short term Shariah compliant debt instruments while taking in to account liquidity considerations.

786 Rising Star Fund (786RSF) was launched in July 14, 2007 with the objective to provide the maximum total return to the unit holders through allocation of assets between Shariah Compliant Equity and Shariah Compliant Fixed Income Instrument and any other Shariah Compliant Instrument as permitted by SECP and Shariah Advisor.

First Dawood Mutual Fund (FDMF) was launched in March 22, 2005 with the objective to provide investors an opportunity to invest in diversified portfolio of securities representing equity, fixed income securities and money market instruments. The Fund will primarily invest into equity market ranging from 30% to 70% of its net assets. The Fund will maintain at least 10% of the net assets shall be invested at all times in cash and near cash instruments which include cash in bank accounts (excluding TDRs), treasury bills not exceeding 90 days maturity. The remaining assets will be invested in Government securities, cash and near cash instruments, money market placements, deposits, certificate of deposits (COD), certificate of musharakas (COM), TDRs, commercial papers, reverse repo, TFCs/Sukuks, Margin Trading System, spread transactions, preference shares; with a weighted average time to maturity of not more than 2 years of non-equity assets.

The Management of 786 Investments Limited, with the approval of its Board of Directors, decided to merge the above three schemes (i.e., 786SF, 786RSF and FDMF) by way of merger of 786RSF and FDMF with and into 786SF.

Scheme of Merger:

As a result of the subject Scheme of Merger of 786RSF and FDMF with and into 786SF, all the existing assets and liabilities of 786RSF and FDMF shall be transferred to 786SF and all unit holders of 786RSF and FDMF shall be issued fresh units of 786SF in lieu of their units held in 786RSF and FDMF on the basis of a swap ratio to be calculated on the Effective Date of merger.

Such swap ratio shall be calculated on the basis of respective NAV of the three schemes on the Effective Date and the issuance of the fresh units of 786SF shall be confirmed to all the unit holders of 786RSF and FDMF through issuance of an account statement within fifteen (15) working days of the Effective Date. For further details of the swap ratio, please refer to Section 3.8 of the Scheme of Merger.



Subsequent to the completion of the process of merger, 786SF shall continue as the surviving scheme without any change, whatsoever, in its features and attributes as it carried before the same.

Justification:

Such merger of 786RSF and FDMF with and into 786SF shall result in substantially increasing the assets under management of the surviving fund (i.e., 786SF) and thus allowing all the unit holders in the surviving fund to benefit from economies of scale resulting in fulfilling the investment objectives and policies more economically and efficiently.

Meeting of the Unit Holders:

In order to proceed with the subject Scheme of Merger, 786 Investments Limited is required to obtain approval of the unit holders of three schemes involved. In light of the same 786 Investments Limited plan the meetings of the unit holders of 786SF, 786RSF and FDMF on October 16, 2019.

Subject to the approval of the unit holders of three schemes, the management of 786 Investments Limited shall proceed with the completion of all regulatory and other requirements in respect of the merger so as to effectively execute the same on the Effective Date which shall be announced through a public notice in the newspaper.



SCHEME OF MERGER

OF

786 RISING STAR FUND (FORMERLY DAWOOD ISLAMIC FUND)

(AN OPEN END ISLAMIC ASSET ALLOCAITON SCHEME)

AND

FIRST DAWOOD MUTUAL FUND

(AN OPEN-END BALANCED SCHEME)

WITH AND INTO

786 SMART FUND (formerly: Dawood Income Fund)

(AN OPEN-END ISLAMIC INCOME SCHEME)



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This Scheme of Merger sets out the terms and conditions of the merger of 786 Rising Star Fund (formerly Dawood Islamic Fund) ("786RSF") and First Dawood Mutual Fund ("FDMF") with and into 786 Smart Fund (formerly Dawood Income Fund) ("786SF") by way of transfer to and vesting of the whole of the 786RSF and FDMF Undertaking into 786SF in accordance with Regulation 58(1)(m) of the Non-Banking Finance Companies and Notified Entities Regulations, 2008 ("the Regulations") and in compliance of the requirements of Circular No. 20 dated June 23, 2009, issued by the Securities and Exchange Commission of Pakistan ("SECP") and is to be approved by a resolutions passed by the unit holders of each of the 786RSF, FDMF and 786SF (collectively referred to as "the Schemes") at separate duly convened meetings of the respective unit holders.

1- DEFINITIONS:

In this Scheme of Merger, unless the subject or context otherwise requires, the following expressions shall bear the meanings ascribed to them below:

- 1.1 **"Accounting Period"** means a period commencing from the first day of July and ending on thirtieth day of June or any other period as may be approved by the SECP and the Commissioner of Inland Revenue.
- 1.2 **"CDC-Trustee"** means Central Depository Company of Pakistan Limited, in its capacity as the Trustee of 786RSF and FDMF.
- 1.3 **"MCBFSL-Trustee"** means MCB Financial Services Limited, in its capacity as the Trustee of 786SF.
- 1.4 **"Constitutive Documents"** means in relation to 786SF, 786RSF and FDMF their respective trust deeds (including supplemental trust deeds), offering documents (including supplemental offering documents) and other principal documents governing the formation of these Funds.
- 1.5 **"Effective Date"** means **October 31, 2019** or any other day as may be notified by the Management Company or any later day, which shall be the day as may be approved by the SECP on which this Scheme of Merger becomes operative in accordance with the SECP's Circular No.20 dated June 23, 2009.
- 1.6 **"Funds" or "Schemes"** mean collectively 786SF, 786RSF and FDMF, the open-end schemes constituted under the Regulations and managed by the Management Company.
- 1.7 **"Management Company"** means 786 Investments Limited, a public listed company quoted on Pakistan Stock Exchange Ltd, incorporated under the Companies Ordinance, 1984, with its registered office at G3, Ground floor, BRR Tower, Hassan Ali Street, off I.I. Chundrigar Road, Karachi.



- 1.8 **"Net Asset"** shall have the same meaning as described in the Rules or the Regulations.
- 1.9 **"Net Asset Value (NAV)"** shall have the same meaning as described in Rules or the Regulations.
- 1.10 **"786RSF"** means 786 Rising Star Fund, an open-end scheme constituted by a registered Trust Deed.
- 1.11 **"786SF"** means 786 Smart Fund, an open-end scheme constituted by a registered Trust Deed.
- 1.12 **"FDMF"** means First Dawood Mutual Fund, an open-end scheme constituted by a registered Trust Deed.
- 1.13 **"786SF Register"** shall mean the Register of 786SF Unit Holders maintained in accordance with the Regulations and the Constitutive Documents thereof.
- 1.14 **"786SF Resolution"** means a resolution passed by 786SF Unit Holders, by a majority of not less than three-fourth or such other in value of the total outstanding 786SF Units, as may be allowed by SECP, on the basis of one vote for one 786SF Unit held, as are present in person or through Proxies or by post at a meeting of unit holders of which, not less than seven (7) working days notice specifying the intention to propose the resolution has been duly given.
- 1.15 **"786SF Undertaking"** means the business, operations, affairs, properties, assets, receivables, securities, contracts, liabilities, accounts payable, etc. of 786SF as on the Effective Date.
- 1.16 **"786SF Unit Holder"** means the holder of 786SF Units on the date of the book closure of 786SF for the purpose of the meeting of the unit holders.
- 1.17 **"786SF Unit"** means an undivided share in the Net Assets of 786SF.
- 1.18 **"786RSF Register"** shall mean the Register of 786RSF Unit Holders maintained in accordance with the Regulations and the Constitutive Documents thereof.
- 1.19 **"786RSF Resolution"** means a resolution passed by 786RSF Unit Holders, by a majority of not less than three-fourth or such other in value of the total outstanding 786RSF Units, as may be allowed by SECP, on the basis of one vote for one 786RSF Unit held, as are present in person or through Proxies or by post at a meeting of unit holders of which, not less than seven (7) working days notice specifying the intention to propose the resolution has been duly given.

- 1.20 **"786RSF Undertaking"** means the business, operations, affairs, properties, assets, receivables, securities, contracts, liabilities, accounts payable, etc. of 786RSF as on the Effective Date.
- 1.21 **"786RSF Unit Holder"** means the holder of 786RSF Units on the date of the book closure of 786RSF for the purpose of the meeting of the unit holders.
- 1.22 **"786RSF Unit"** means an undivided share in the Net Assets of 786RSF.
- 1.23 **"FDMF Register"** shall mean the Register of FDMF Unit Holders maintained in accordance with the Regulations and the Constitutive Documents thereof.
- 1.24 **"FDMF Resolution"** means a resolution passed by FDMF Unit Holders, by a majority of not less than three-fourth or such other in value of the total outstanding FDMF Units, as may be allowed by SECP, on the basis of one vote for one FDMF Unit held, as are present in person or through Proxies or by post at a meeting of unit holders of which, not less than seven (7) working days notice specifying the intention to propose the resolution has been duly given.
- 1.25 **"FDMF Undertaking"** means the business, operations, affairs, properties, assets, receivables, securities, contracts, liabilities, accounts payable, etc. of FDMF as on the Effective Date.
- 1.26 **"FDMF Unit Holder"** means the holder of FDMF Units on the date of the book closure of 786RSF for the purpose of the meeting of the unit holders.
- 1.27 **"FDMF Unit"** means an undivided share in the Net Assets of FDMF.
- 1.28 **"Proxy"** means written authority given by a Unit Holder to another person to attend the meeting of the unit holders of a Fund, called by the Management Company for the purpose of approving this Scheme of Merger. Proxy shall be issued in the same manner and on the same terms as provided in the SECP's Circular No. NBFC/MF/Circular/ 2009/648 dated June 23, 2009 and SECP's Circular No. NBFCD/ CIRUCLAR/ 75/2012 dated June 11, 2012.
- 1.29 **"Regulations"** mean Non-Banking Finance Companies and Notified Entities Regulations, 2008, as amended from time to time.
- 1.30 **"Rules"** mean the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003, as amended from time to time.
- 1.31 **"Scheme of Merger "** means this Scheme of Merger of 786RSF and FDMF with and into 786SF, in its present form or with any modifications thereof or additions thereto as may be approved by the respective Unit Holders of the Schemes and with such conditions or alterations, as imposed or required, if any, by the SECP or any other regulatory authority.

- 1.32 **"SECP"** means the Securities & Exchange Commission of Pakistan, established under Section 3 of the Securities and Exchange Commission of Pakistan Act, 1997, and shall include its legal successor, if any.
- 1.33 **"Trustee"** in relation to 786SF shall mean MCBFSL - Trustee.
- 1.34 **"Trustee"** in relation to 786RSF and in relation to FDMF shall mean CDC - Trustee.

Terms capitalized but not defined, shall have the same meanings as contained in the Rules and the Regulations or any applicable law for the time being in force. The headings and marginal notes are inserted for convenience only and shall not affect construction of this Scheme of Merger. Words used in masculine gender shall include feminine gender and words used in singular shall include plural as and how the context so requires.

2. OBJECTIVE OF THIS SCHEME OF MERGER:

- 2.1 **The principal objective of this Scheme of Merger is to effectuate a merger of 786RSF and FDMF with and into 786SF by transfer to and vesting in 786SF, the whole of 786SF Undertaking, against the allotment and issuance of an proportion number of 786RSF Units and FDMF Units to 786SF Unit Holders based on SWAP ratio, whose name(s) appear in the 786RSF and FDMF Register, at the close of the day immediately preceding the date of the book closures announced by the Management Company for such purpose.**
- 2.2 **Such issuance of proportionate number of 786SF Units of the par value of Rs.100/- each, shall be made on the basis of swap ratio determined as on the "Effective Date" and mentioned in Clause 3.8 below against 786RSF Units and FDMF Units, which shall be credited as fully paid up Units, on the Effective Date to be announced by the Management Company and the subsequent dissolution of 786RSF and FDMF without winding up and continuity of 786SF as the Surviving Fund.**

3. MERGER OF 786RSF and FDMF WITH AND INTO 786SF

From the Effective Date, 786RSF and FDMF will be merged with and into 786SF by transfer to and vesting in 786SF the whole of 786RSF and FDMF Undertaking, including but not limited to their respective properties, assets, rights, contracts, liabilities and obligations of every kind and description, as subsisting on the Effective Date.

786RSF and FDMF Undertaking to be transferred to and vested in 786SF under this Scheme shall be inclusive but not limited to the following:-

3.1 Transfer of Assets

- 3.1.1 The assets of 786RSF and FDMF shall include properties of all kinds and descriptions, comprising shares, securities, investments in securities, profits,



income, fees, dividends, rights and bonus issues, amounts receivables from brokers on sale of marketable securities, actionable claims, book debts, advances, deposits, prepayments, contracts, licenses, privileges and all other receivables, whether accrued or accruing, or contingent, whether solely or jointly with another or others, including cash and bank balances and profits or income thereon, the entitlements of 786RSF and FDMF to credit or refund of payments made for or in respect of any assessment or liability for taxes including advance tax collections and other assets. All these assets of 786RSF and FDMF are free from any mortgages or charges or other encumbrances whatsoever except for collateral issued in favor of NCCPL against settlement.

3.2 Transfer of Debts, Liabilities and Obligations

3.2.1 The debts, liabilities and obligations of 786RSF and FDMF, whether accrued or accruing or contingent and whether incurred solely or jointly with another or others, including amounts owing to banks and financial institutions and other creditors, the liabilities of 786SF for payment of taxes, as well as any amounts payable to brokers on account of purchase of marketable securities.

3.3 Banks

3.3.1 All accounts maintained by 786RSF and FDMF with any bank or financial institution shall at the Effective Date, become operative by MCBFSL Trustee being the Trustee of 786SF, or at option of the Management Company cease to be operative and in lieu thereof and all amounts or credit balances therein, shall be transferred to the accounts of 786SF, operated by MCBFSL Trustee or shall be transferred to new bank accounts to be opened by MCBFSL Trustee, as and how the Management Company may deem appropriate.

3.4 Securities

3.4.1 Any security held on the Effective Date by 786RSF and FDMF or by a nominee or agent of or Trustee or Custodian for 786RSF and FDMF, whether as security for the payment or discharge of any liability of a broker or whether for its own benefit or, as the case may be, for the benefit of any other person, including as security for the payment or discharge of such liability shall, on and from the Effective Date shall vest in 786SF through MCBFSL Trustee and/or shall be made available to MCBFSL Trustee, being the Trustee of 786SF, the surviving Fund.

3.4.2 In relation to any security vested in 786RSF and FDMF any liabilities thereby secured, 786SF and MCBFSL Trustee shall be entitled to all the rights and priorities to which 786RSF and FDMF would have been entitled as if it had continued to hold the security.

3.4.3 Any security referred to in the forgoing provisions of this paragraph which extends to future advances or liabilities shall, on and from the Effective Date, be available to 786SF (whether for its own benefit or, as the case may be, for the benefit of another person) as security for the payment or discharge of future advances and future liabilities to the same extent and in the same manner in all respects as future advances by, or liabilities owed to 786RSF and FDMF, as the case may be, as if 786SF was secured thereby immediately before the Effective Date.

3.5 **Contracts**

3.5.1 Every contract to which a nominee or agent of or Trustee or Custodian in relation to 786RSF is a party shall have effect on and from the Effective Date as if:

- 786SF had been a party thereto instead of a nominee or agent of or Trustee or Custodian of 786RSF and FDMF, as the case may be.
- Any reference (however worded and whether express or implied) to a nominee or agent of or Trustee or Custodian of 786RSF and FDMF, shall be substituted, as respects anything failing to be done on or after the Effective Date, by a reference to 786SF.

3.6 **Custody of Documents**

3.6.1 The custody of any documents, records, properties, securities, monies and goods held by agents, Custodian or Trustee on account of 786RSF and FDMF, shall vest in 786SF on the Effective Date and the rights and obligations of the Management Company on account of 786RSF and FDMF under any contract relating to any such documents, records, properties, securities, monies or goods shall on that day become rights and obligations of 786SF.

For avoidance of any doubt it is clarified that 786SF, being the Surviving Fund, shall continue in its current form as a registered notified entity under the Regulations.

3.7 **Issuance of Units by 786SF - Class 'B' Units**

3.7.1 As consideration for the transfer to and vesting in 786SF of whole of the 786RSF and FDMF Undertaking, 786SF shall allot and issue, on the basis of swap ratio to be calculated as per sub-clause 3.8 below, a proportionate number of Class 'B' Units of 786SF of the par value of Rs.100/- each to all 786RSF and FDMF Unit Holders, whose names appear in the 786RSF and FDMF Register, at the close of the day immediately preceding the date of the book closures announced by the Management Company for such purpose.

3.7.2 Such 786SF Units shall be issued by the Management Company in the electronic form and shall be credited to the existing accounts of 786RSF and FDMF Unit Holders as fully paid up Units.

- 3.7.3 The allotment and issuance of the 786SF Units shall be made by the Management Company within fifteen (15) working days from the Effective Date and the same shall be confirmed to the respective Unit Holders through issuance of account statements within fifteen (15) working days of the issuance of Units.
- 3.7.4 For 786SF Units, to be issued by the Management Company in lieu of 786RSF and FDMF Units held in electronic/dematerialized form or in the physical certificate form, the same shall be issued in the electronic/dematerialized form and shall be credited to the existing accounts of the respective 786RSF and FDMF Unit Holders without requiring any formal request in respect of the same.
- 3.7.5 For avoidance of any doubt it must be clearly understood that upon the allotment of 786SF Units to 786RSF and FDMF Unit Holders in the manner aforesaid, all 786RSF and FDMF Units, whether issued in the electronic form or as physical certificates, shall stand cancelled. The Class “B” Units of 786SF upon allotment and issuance pursuant to this Scheme of Merger shall rank pari passu with the existing 786SF Units as on the Effective Date in all respects and shall be entitled to all dividends and other benefits as may be declared by 786SF subsequent to the Effective Date.

Note/ Disclaimer: The cancellation of 786RSF and FDMF Units held by their respective unit holders and issuance of 786SF Units, in lieu thereof, shall be subject to all applicable duties, charges, levies, taxes (including the capital gains tax) and zakat as per the pertinent laws, rules and regulations.

3.8 Basis for calculation of swap ratio

- 3.8.1 The swap ratio applicable for the determination of entitlement of the 786SF Units to be issued in lieu of the 786RSF and FDMF Units on the Effective Date shall be computed on the basis of the NAVs of 786SF and 786RSF and FDMF as at the close of day on the Effective Date.
- 3.8.2 For the purposes of the approval of this Scheme of Merger, swap ratio computed on the basis of the NAVs of all three schemes as of the close of day immediately preceding the meeting of the unit holders is enclosed as **‘Annexure - B’**.

In case of NAV of any of the three schemes, used for computation of swap ratio as approved by the Unit Holders of the respective schemes fluctuates and affect the swap ratio, as disclosed in the ‘Annexure - B’ by 15% or more prior to the Effective Date, this Scheme of Merger shall be again placed before their respective Unit Holders for approval in their meetings to be called by the Management Company, based on the latest NAVs.

3.9 Obligations, Representations and Indemnifications

3.9.1 Upon the merger of 786RSF and FDMF with and into 786SF, the Management Company shall take all necessary and expedient steps to properly and efficiently manage the entire businesses and affairs of 786SF, as the merged and surviving Fund.

3.9.2 Upon the merger, the Management Company shall operate and promote 786SF and all its business and affairs in the normal course, as a merged and surviving Fund.

3.10 Trustee

3.10.1 Upon the merger of 786RSF and FDMF with and into 786SF, MCBFSL Trustee will continue be the Trustee of 786SF as the surviving Fund in terms of its Constitutive Documents.

4. NET ASSET SIZE OF 786RSF, FDMF AND 786SF [as on the October 4, 2019]:

Fund	Number of outstanding units	Fund size (Ruppes)
786 Rising Star Fund	974,266 units of par value of Rs. 100/- each	Rs. 103,297,594
First Dawood Mutual Fund	6,160,988 units of par value of Rs. 10/- each	Rs. 106,618,436
786 Smart Fund	4,775,956 units of par value of Rs. 100/- each	Rs. 388,278,227
Total		Rs. 598,194,257

5. INFORMATION ABOUT 786 SMART FUND (the Surviving Fund):

786SF as the surviving Fund shall continue to be operative with the same investment objectives and investment policy as laid down in its Constitutive Documents. Features of 786SF are stated below:

5.1 Category of the 786SF

The Fund shall be an 'Islamic Income scheme' as per criteria for categorization of open-end collective investment schemes specified in the Regulations or by SECP, as amended from time to time.

5.2 Investment Objectives of 786SF

The investment Objective of the fund is to provide competitive risk adjusted returns to its investors by investing in a diversified portfolio of long, medium and short term Shariah compliant debt instruments while taking in to account liquidity considerations.



5.3 **Benchmark of 786SF**

The performance of the Fund shall be compared against a benchmark based on six (6) months average deposit rates of three (3) A rated scheduled Islamic banks or Islamic windows of conventional banks as selected by MUFAP.

5.4 **Investment Policy of 786SF**

786IL shall manage the Fund on purely Shariah compliance basis by investing in designated Authorized Investments approved by the Shariah Advisor and thus providing Shariah compliant returns to the investors of the Fund. Hence no portion of the Fund property shall be invested in any investment which as per the opinion of Shariah advisor is non Shariah compliant.

The Fund would invest in diversified portfolio of long, medium and short term Shariah compliant income instruments in order to maximize risk adjusted income for the investors.

786 Smart Fund is in line with its Investment Objective will invest in Authorized Investments.

5.5 **Management Fee of 786SF (Post Merger)**

The Management Fee of 786SF shall be maintained at one and half percent (1.50%).

5.6 **Risks**

All investors should realize that all investments in mutual funds involve risk. It should be clearly understood that the portfolio of the Fund is subject to market fluctuations and risks inherent in all such investments. The value of the Units in the Fund may appreciate as well as depreciate as well as the level of dividend declared by the Fund may go down as well as up. Past performance does not necessarily indicate future performance. Therefore, before you invest in the Fund you should carefully evaluate the risks.

5.6.1 Some of the factors which add to the risk of 786SF include but are not limited to the following factors:

(1) Government Regulation Risk - Government policies or regulations are more prevalent in some securities and financial instruments than in others. Funds that invest in such securities may be affected due to change in these regulations or policies, which directly or indirectly affect the structure of the security and/or in extreme cases a governmental or court order could restrain payment of capital, principle or income.

(2) Credit Risk - Credit Risk comprises Default Risk and Credit Spread Risk. Each can have negative impact on the value of the income and money market instruments including Sukuks etc:



- **Default Risk** - The risk that the issuer of the security will not be able to pay the obligation, either on time or at all;

- **Credit Spread Risk** - The risk that there may be an increase in the difference between the return/markup rate of any issuer's security and the return/markup rate of a risk free security. The difference between this return/mark up rates is called a "credit spread". Credit spreads are based on macroeconomic events in the domestic or global financial markets. An increase in credit spread will decrease the value of income and including money market instruments;

(3) Price Risk - The price risk is defined as when the value of the Fund, due to its holdings in such securities rises and falls as a result of change in interest rates.

(4) Liquidity Risk - Liquidity risk is the possibility of deterioration in the price of a security in the Fund when it is offered for sale in the secondary market.

(5) Settlement Risk - At times, the Fund may encounter settlement risk in purchasing / investing and maturing / selling its investments which may affect the Fund's performance etc.

(6) Reinvestment Rate Risk -In a declining interest/ markup rate economic environment, there is a risk that maturing securities or coupon payments will be reinvested at lower rates, which shall reduce the return of the Fund compared to return earned in the preceding quarters.

(7) Events Risk - There may be adjustments to the performance of the Fund due to events including but not limited to, natural calamities, market disruptions, mergers, nationalization, insolvency and changes in tax law.

(8) Redemption Risk - There may be special circumstances in which the redemption of Units may be suspended or the redemption payment may not occur within six working days of receiving a request for redemption from the investor.

(9) Distribution Risk - Dividend distribution may also be liable to tax because the distributions are made out of the profits earned by the Fund, and not out of the profits earned by each Unit holder. Unit holders who invest in a fund before distribution of dividends may be liable to pay tax even though they may not have earned any gain on their investment as return of capital to investors upon distribution is also taxable.

(10) Shariah non-compliance Risk - The risk associated with employing funds in investments that are not consistent with the principles of Shariah.

5.7 Units of 786SF

5.7.1 All Units represent an undivided share in the trust property (defined as Deposited Property in the Constitutive Documents of 786SF) and each 786SF Unit Holder has a beneficial interest in 786SF proportionate to the 786SF Units held by such 786SF Unit Holder. 786SF Units are transferable and can be pledged

- 5.7.2 The Management Company is offering Class 'B' units of 786SF and the details of the current level of Front-end Load and the Management Fee charged on these Units is outlined in Annexure "B"
- 5.7.3 The Management Company may issue additional class(es) of Units with such attached rights and conditions as determined from time to time, pursuant to the provisions of the Deed and subject to the consent of the Trustee and approval of the SECP. The description, rights and conditions applicable to such offer of Units shall be stated in the Supplementary Offering Document(s) with the approval of the SECP.
- 5.7.4 For avoidance of doubt, it is clarified that no Front-end Load shall be applied to the Class "B" Units of 786SF to be issued to 786RSF and FDMF Unit Holders in lieu of 786RSF and FDMF Units held by them based on the swap ratio to be calculated on the Effective Date.

5.8 DISTRIBUTION POLICY OF 786SF

a) Dividends

- 5.8.1 786SF shall distribute at least ninety percent (90%) (or such other percentage specified in the Regulations, Income Tax Ordinance or SECP) of its accounting income received or derived from sources other than capital gains annually as cash dividends as stipulated under the Regulations, as amended from time to time. The balance of net income will be retained in the Fund. The Fund shall comply with regulatory and taxation requirements and the dividend policy may be amended accordingly.
- 5.8.2 All Units shall have the same rights with respect to dividend. The Unit Holders may request the Management Company to re-invest the cash dividend due to them for purchase of additional Units.

b) Declaration of Dividend

- 5.8.3 The Management Company shall decide as soon as possible but not later than forty-five days after the Accounting Date / interim period whether to distribute among Unit Holders, profits, either in form of bonus Units or cash dividend, if any, available for the distribution at the end of the Accounting Period and shall advise the Trustee of the amount of such distribution per Unit. The Fund will comply with regulatory and taxation requirements and the distribution policy may be amended accordingly.
- 5.8.4 The Management Company on behalf of the Scheme shall, for every accounting year, distribute by way of dividend to the Unit Holders, not less than ninety per cent of the accounting income of the Collective Investment Scheme received or derived from sources other than capital gains as reduced by such expenses as are chargeable to a Collective Investment Scheme under the Regulations.

5.8.5 For the purpose of this Clause the expression “accounting income” means income calculated in accordance with the requirements of International Accounting Standards (IAS) as are notified under the Companies Act, 2017, the Regulations and the directives issued by SECP. Wherever the requirement of Regulations or the directives issued by SECP differs with the requirement of IAS, the Regulations and the said directives shall prevail.

5.9 Other Statutory Compliances

786SF, as an open-end scheme, is subject to all the conditions and requirements of the Regulations and the directives, notifications and circulars issued by the SECP from time to time, which are binding upon the Management Company, the Trustee and the Unit Holders.

5.10 Termination and Liquidation of 786SF

786SF is a perpetual fund but may be terminated and liquidated in accordance with the provisions of the Regulations.

6. REDEMPTION AND ISSUE OF UNITS OF 786 RISING STAR FUND, FIRST DAWOOD MUTUAL FUND AND 786 SMART FUND TO REMAIN SUSPENDED

6.1 Subject to the approval of this Scheme of Merger by 786SF, 786RSF and FDMF Unit Holders at their respective meetings mentioned in Clause 11.1 hereafter, the further issuance and redemption of Units of the Schemes to be merged shall remain suspended till the Effective Date of Merger or till thirty (30) days after the respective Unit Holders’ meeting, whichever is earlier.

6.2 Subsequent to the Effective Date, only 786SF shall resume the dealing in its Units as an open-end scheme while 786RSF and FDMF shall cease to issue any further units.

7. DISSOLUTION OF 786RSF

7.1 Subsequent to the Effective Date and the transfer and vesting of the whole 786RSF and FDMF Undertaking to 786SF and the issuance of Units by 786SF to 786RSF and FDMF Unit Holders, 786RSF and FDMF shall cease to exist as publically available open-end schemes and their respective units shall stand cancelled and 786RSF and FDMF scheme shall stand dissolved without winding up.

8. FINANCIAL INFORMATION OF 786RSF, FDMF and 786SF

8.1 The profit after tax, earning per Unit and the dividends paid of 786RSF, FDMF and 786SF as shown in their audited financial statement for each of the 4 years up to 2019, are as follows:

Funds	Profit after tax (Rs. in million)			
	2016	2017	2018	2019
786 Rising Star Fund	34.98	9.49	(11.81)	(11.99)
786 Smart Fund	38.2	34.99	35.11	50.43
First Dawood Mutual Fund	(72.24)	103.72	(8.84)	(42.88)

Funds	Dividend/Bonus (Percent)			
	2016	2017	2018	2019
786 Rising Star Fund	43.45%	4.41%	0.38%	NIL
786 Smart Fund	15.57%	9.44%	8.53%	8.22%
First Dawood Mutual Fund	0.10%	11.17%	0.47%	NIL

The net assets along with the NAV as on June 30, 2016, June 30, 2017, June 30, 2018 and as June 30, 2019, are tabulated below:-

Funds	June 30, 2016		June 30, 2017		June 30, 2018		June 30, 2019	
	Net Assets (Rs. in million)	NAV (Rs.)	Net Assets (Rs. in million)	NAV (Rs.)	Net Assets (Rs. in million)	NAV (Rs.)	Net Assets (Rs. in million)	NAV (Rs.)
786 Rising Star Fund	87.916	124.90	103.031	132.63	106.153	117.07	101.92	80.43
786 Smart Fund	155.983	75.98	247.737	78.93	334.724	88.31	445.69	104.38
First Dawood Mutual Fund	427.289	16.52	291.052	23.08	243.117	22.38	107.14	17.34

9. MISCELLANEOUS

9.1 All suits, appeals and other legal proceedings in relation to 786RSF and FDMF pending immediately before the Effective Date shall be treated as suits, appeals and legal proceedings by or against 786SF and may be continued, prosecuted, defended and/or enforced by or against 786SF accordingly, subject to applicable provisions of laws and due to merger of the aforementioned Schemes.

9.2 All dividends mandates already existing in relation to the Units of 786RSF, FDMF and 786SF shall operate in relation to any new Units of 786SF allotted to the same 786RSF and FDMF Unit Holder.



- 9.3 **786RSF and FDMF shall be dissolved, without winding up subsequent to the Effective Date.**
- 9.4 **All costs, charges and expenses in respect of the preparation of this Scheme of Merger and carrying the same into effect, including conduct of meetings of the unit holders of the three schemes, shall be borne and paid by the Management Company.**
- 9.5 **This Scheme of Merger shall become operative as soon as order of sanctioning the Scheme of Merger is issued by the SECP and unless, this Scheme of Merger shall have become effective as aforesaid on or before the Effective Date, or such later date, as SECP may allow, the same shall not become effective.**
10. **PROVISIONING POLICIES OF 786RSF, FDMF and 786SF**
- 10.1 **Please see the attached “Annexure C” to review the ‘Provisioning Policy for Non-Performing Debt Securities of the Collective Investment Schemes’ of 786IL, as approved by its Board of Directors.**
11. **GENERAL**
- 11.1 **This Scheme of Merger seeks approval of 786RSF, FDMF and 786SF Unit Holders in separate meetings of the unit holders convened by the Management Company by a majority of not less than three fourth in value of the total Unit Holders, at separate duly convened meetings of the unit holders entitled to vote, on the basis of one vote for one Unit held, as are present in person or through Proxy or by post at meetings of the unit holders convened by the Management Company.**
- 11.2 **In the event that the 786SF Unit Holders and / or 786RSF and/ or FDMF Unit Holders do not vote in favor of the Scheme of Merger, this Scheme of Merger shall become null and void.**
- 11.3 **In the event the Unit Holders of all three Funds do not approve the Scheme of Merger:**
- The three Funds will continue to operate as separate open-end Schemes, under their respective existing Constitutive Documents.

EXTRACT BOARD RESOLUTION APPROVING THE MERGER OF 786SF WITH AND INTO 786RSF and FDMF

“RESOLVED THAT 786 Rising Star Fund (formerly Dawood Islamic Fund) and First Dawood Mutual Fund be merged with and into 786 Smart Fund (formerly Dawood Income Fund) with the consent of Central Depository Company of Pakistan Limited (CDC), the Trustee of 786 Rising Star Fund and First Dawood Mutual Fund and MCB Financial Services Ltd (MCBFSL), the Trustee of 786 Smart Fund, the surviving Fund and the approval of the Securities and Exchange Commission of Pakistan (SECP) after approvals of the Unit holder of 786SF, 786RSF and FDMF to be obtained at separate duly convened meetings by a majority of unit holders of each pertinent fund, representing at least three-fourth (3/4th) in value of the total outstanding units of such fund, as prescribed under SECP’s circular no 20 of 2009 dated July 23, 2009, or by such majority as may be relaxed and/or approved by the SECP, based on the tentative swap ratio and other terms and conditions, as enunciated in the scheme of merger placed before the Directors, which be and is hereby unanimously approve”

“FURTHER RESOLVED THAT subsequent meetings of the Unit Holders of 786 Rising Star Fund, First Dawood Mutual Fund and 786 Smart Fund be convened and held separately for which purposes, notices of meeting be issued to the unit holders of the respective Funds along with statements of material facts and other documents/information, as required under Circular no. 20 of 2009 and the drafts of the notices, along with statement of material facts to be made available to the unit holders of 786 Rising Star Fund, First Dawood Mutual Fund and 786 Smart Fund, as placed before the Directors be and are hereby unanimously approved.”

“FURTHER RESOLVED THAT the Chief Executive Officer, Chief Financial Officer and Company Secretary, Finance Manager and Head of Audit & Compliance of the Company be and are hereby directed and authorized jointly any two and severally to take all steps for commencing and completing the entire merger process in accordance with the law, to obtain consent and liaise and coordinate the CDC, as the Trustee of 786 Rising Star Fund and First Dawood Mutual Fund and with MCBFSL, as the Trustee of 786 Smart Fund in all matters and issues relating to the merger to liaise and confer with auditors and legal advisors of the three funds on all financial, accounting and legal matters, to make written and personal representation to the SECP as and when required, to respond to any question raised by the SECP, to ensure all compliance required by the SECP, to fulfill and reporting and other requirement under the Code of Corporate Governance and Listing Regulation of the Stock Exchange and to fulfill all legal procedural and corporate formalities in connection therewith”

“FURTHER RESOLVED THAT the Management Company through its designated officers be and is hereby further authorized to prepare and submit an application to SECP for its approval of the Scheme, along with all requisite documents and information as required under Regulation 58(1)(m) of the Non Banking Finance Companies and Notified Entities Regulation 2008 and SECP Circular 20 of 2009, to effectuate and appropriate plan with timeline for accomplishing the merger, to complete all the formalities, including public announcements and notices, intimation to the Pakistan Stock Exchange and the SECP, issuance of units of 786 Smart Fund, to the unit holder of 786 Rising Star Fund and First Dawood Mutual Fund, as per the swap ratio mentioned in the Scheme on the effective date”



ANNEXURE - 'B'

SWAP RATIO (Based Upon the NAVs as on October 4, 2019)

Net Asset Value and the Portfolio Details of the three Schemes as on October 4, 2019 and the Swap Ratio calculated based on NAVs of each of the Schemes as on the day immediately preceding the Meeting of the Unit Holders are as below.

Net Asset Value as on October 4, 2019	
Fund Name	NAV (PKR)
786SF	83.2763
786RSF	106.0260
FDMF	17.3054

SWAP RATIO	
Currently held	Issued upon Merger*
One (1) unit of 786RSF	1.2732 Units of 786SF shall be issued
One (1) unit of FDMF	0.2078 Units of 786SF shall be issued

* The number of units to be issued are rounded down to the nearest four decimal.

Note: The Management Company shall distribute to the participants the updated Annexure - B on the day of the meeting which shall disclose Net Asset Value as on October 15, 2019 (the day immediately preceding the unit holders' meeting) in line with the requirements of Circular 20 of 2009)

**Provisioning Policy for Exposure of Funds under management
of 786IL**

1. Introduction:

The Securities and Exchange Commission of Pakistan (SECP) vide its Circular No. 1 dated January 6, 2009 prescribed the criteria for making provision against non performing debt securities held by Collective Investment Schemes (CIS). Further in continuation of above circular SECP vide its Circular No. 13 dated May 04, 2009 has made it mandatory for all Asset Management Companies to formulate a comprehensive provisioning policy for making any additional provision over and above the required provision as led out in the Circular No. 1 dated January 6, 2009 against debt securities or any other exposure held by CIS.

In this connection, this policy outlines procedure for making provision against exposure of Funds under the management of 786 Investments Limited.

Exposure means investments of Funds in:

- Debt Securities including Term Finance Certificates, SUKUK, Advance against Term Finance Certificates/SUKUK, Commercial Papers or any other debt security by whatever name called; and
- Other exposures including, Certificates of Investment, Certificates of Deposits, Letter of Placement and other money market placements/transactions/instruments.

2. Criteria for Classification as Non-Performing exposure:

Any exposure shall be classified as non-performing, if the principal and/or profit/interest is overdue by 15 calendar days from the due date.

3. Provisioning Requirements against Non-Performing exposure:

3.1 Debt Securities:

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

Effective Day For Provisioning	Minimum Provision as a percentage of outstanding Principal amount	Cumulative Provision
90 th Day	20%	20%
180 th Day	10%	30%
270 th Day	15%	45%
365 th Day	15%	60%
455 th Day	40%	100%



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

Effective Day For Provisioning	Minimum Provision as a percentage of outstanding Principal amount	Cumulative Provision
90 th Day	25%	25%
180 th Day	5%	30%
270 th Day	15%	45%
365 th Day	15%	60%
455 th Day	40%	100%

However, full provisioning shall be made immediately if the applicable rating of the debt security is downgraded to 'D' (default)

In addition to the minimum provision prescribed above, any installment of principal amount in arrears during the period of non-performance shall also be fully provided. Accordingly for the purpose of applying percentage of provision as per above table principal amount shall not include overdue principal. Any modification to the Circular No. 1 of 2009 dated January 6, 2009 by SECP from time to time will be deemed as a modification in the provisioning policy. In addition to the time-based criteria prescribed in Tables 'A' & 'B', a higher provisioning can be made if circumstances warrant such provision (additional provisioning), subject to the approval of the Board of Directors and disclosure in periodical financial statements.

Following procedure will be applied for additional provisioning:

- Fund Manager/Risk Manager will propose additional provisioning to the Investment Committee;
- Investment Committee will evaluate the proposal and give recommendations to the Board of Directors;
- The Board of Directors will approve the additional provisioning; and
- Disclosure about provisioning will be made in the relevant periodical financial statements.

3.2 Other Exposure

All other secured non-performing exposure shall be provided for in accordance with the following criteria from the day of classification as non-performing:

Effective Day For Provisioning	Minimum Provision as a percentage of outstanding Principal amount	Cumulative Provision
90 th Day	20%	20%
180 th Day	20%	40%
270 th Day	20%	60%
365 th Day	20%	80%
455 th Day	20%	100%



All other unsecured non-performing exposure shall be provided for in accordance with the following criteria from the day of classification as non-performing:

Effective Day For Provisioning	Minimum Provision as a percentage of outstanding Principal amount	Cumulative Provision
90 th Day	25%	25%
180 th Day	25%	50%
270 th Day	25%	75%
365 th Day	25%	100%

In addition to the time-based criteria prescribed in Table 'C' & 'D', a higher provisioning can be made if circumstances warrant such provision (additional provisioning), subject to the approval of the Board of Directors and disclosure in periodical financial statements.

Following procedure will be applied for additional provisioning:

- Fund Manager/Risk Manager will propose additional provisioning to the Investment Committee;
- Investment Committee will evaluate the proposal and give recommendations to the Board of Directors;
- The Board of Directors will approve the additional provisioning; and
- Disclosure about provisioning will be made in the relevant periodical financial statements.

4. Provisioning Requirements against performing exposure:

Provisioning against performing exposures shall be made after evaluation of the exposure and if circumstances indicate such provisioning, subject to the prior approval of the Board of Directors and disclosure in periodical financial statements.

The provisioning against performing exposure shall be proposed after thorough due diligence and considering factors including the following:

- Significant deterioration in the financial/operational conditions of the issuer/guarantor;
- Strong market news that the borrower can be bankrupt or go to financing institutions for restructuring;
- Deterioration of key financial ratios;
- Down grade in credit rating of the instrument/issuer/guarantor;
- Observable data that indicate that there is a measurable decrease in cash flows of the issuer/guarantor which can effect timely payment of profit/interest or principal;
- Crisis in the industry in which the issuer/guarantor operates; and
- Introduction of government policy which adversely affect the issuer/guarantor or the industry in which the issuer/guarantor operates.



Following procedure will be applied for provisioning against performing exposure:

- Fund Manager/Risk Manager will propose provisioning against performing exposure with rationale to the Investment Committee;
- Investment Committee will evaluate the rationale of the proposal and give recommendations to the Board of Directors;
- The Board of Directors will approve the provisioning against performing exposure;
- Disclosure about provisioning will be made in the relevant periodical financial statements.

On approval of the Board of Directors, a performing exposure shall be classified as non-performing.

5. Suspension and reversal of interest/profit:

Accrual of the profit/interest shall be suspended from the first day the interest/profit payment falls due and is not received taking into account following:

- cheque for the profit/interest payment received from the issuer/counterparty but not realized shall be deemed to be received and accrual of the profit/interest shall only be suspended from the day the intimation from trustee for dishonourment is received;
- cheque for the profit/interest payment received from the issuer/counterparty, however the issuer/counterparty has requested not to lodge cheque for clearance, the accrual of the profit/ interest shall only be suspended from the day the request from issuer/counterparty for not lodging a cheque is received.

All interest / profit recognized in the books of the fund shall be reversed immediately once a security is classified as non-performing, and shall be put in Suspense Account and shall not be credited to Income Account except when realized in cash.

6. Reclassification of exposure and Reversal of provision

The non-performing exposure shall only be reclassified as performing once all the arrears have been received in cash and regular payments (interest/profit as well as principal) for the next two installments have been received.

The provision made for the principal amount in accordance with the minimum time based criteria as specified in tables 'A', 'B' 'C' and 'D' shall be reversed in the following manner:

- Where the provision of principal was made due to the interest/profit defaults only, 100% of the provision shall be reversed upon reclassification of the exposure as performing.
- Where the provision of principal was made due to the default in both principal and interest/profit payments, 50% of the provision shall be reversed on receipt of the first regular payment and 50% on receipt of second regular payment.



Where the provisioning is made in excess of the time based criteria as specified in tables 'A', 'B' 'C' & 'D' or against performing exposure it can be reversed in the following manner to the extent that the remaining provision meets the minimum time based requirements if any.

- Fund Manager will propose with justification for reversal of provisioning to the Investment Committee;
- Investment Committee will evaluate the proposal in detail and give recommendation to the Board of Directors for their post facto approval;
- The Board of Directors will approve the reversal of provisioning; and
- Disclosure about reversal of provisioning will be made in the relevant periodical financial statements.

The rescheduling / restructuring of non-performing exposure shall not change the status of classification of exposure as non-performing, unless the terms and conditions of rescheduling / restructuring are fully met for a period of at least one year (excluding grace period, if any) from the date of such rescheduling/restructuring. Further, the unrealized profit/interest on such exposure (held in suspense account) shall not be taken to profit & loss statement unless actually realized in cash.

7. Write-off of fully provided exposure

Fully provided exposures shall be maintained for period of two years, thereafter the exposures (other than those in recovery suits) may be written off after obtaining specific approval of the Board of Directors.

8. Disclosure

This policy shall be disclosed / disseminated to all existing and prospective unit holders, trustee of funds and the SECP. It shall also be disseminated through company website.

The provisioning made in the light of this policy shall be disclosed in the quarterly, half yearly and annual financial statements of the funds.

ANNEXURE - 'D'

Asset Allocation of the Merging and the Surviving Scheme (as on October 4, 2019)

786 Smart Fund (formerly Dawood Income Fund)

Allocation	% of Net Assets
Cash	71.34%
Debt Securities	29.26%
Other Receivable/Liabilities	(0.60%)

786 Rising Star Fund (formerly Dawood Islamic Fund)

Allocation	% of Net Assets
Cash	65.99%
Equity	0%
Debt Securities	25.20%
Other Receivable/Liabilities	8.81%

First Dawood Mutual Fund

Allocation	% of Net Assets
Cash	63.93%
Equity	31.59%
Debt Securities	4.89%
Other Receivable/Liabilities	(0.41%)



**TRUST DEED OF SURVIVING FUND
786 SMART FUND**

ANNEXURE - 'E'

786 Smart Fund trust deed available on company website www.786investments.com



ANNEXURE - 'F'

**OFFERING DOCUMENT OF SURVIVING FUND
786 SMART FUND**

786 Smart Fund offering document available on company website
www.786investments.com