MFSA

MALTA FINANCIAL SERVICES AUTHORITY

Circular regarding Proposed Revised Standard Licence Conditions for Maltese UCITS Schemes

28th September, 2007

1.0 Background/ Introduction

1.1 The purpose of this circular is to serve as:

i. an explanatory note on the structure of the proposed new Investment Services Rules for Retail Collective Investment Schemes ("the new Rules"); and
ii. a consultation document on the proposed revised Standard Licence Conditions for Maltese UCITS Schemes – to be included in Part B II to the new Rules.

2.0 Developments with respect to Maltese UCITS Schemes

2.1 The new Rules will introduce a number of new requirements as well as clarify existing requirements applicable to Maltese UCITS Schemes. The proposed revised Standard Licence Conditions ("SLCs") are primarily aimed at incorporating the requirements applicable to UCITS Schemes included in following documents as well as to up-date cross-references to other sections of the current Investment Services Guidelines which are being revised:

i. CESR's guidelines on the classification of hedge fund indices as financial indices published in July 2007 (Ref: CESR/07-434);
ii. Commission Recommendation on the use of financial derivative instruments for undertakings for collective investment in transferable securities (UCITS) (2004/383/EC); and
iii. Commission Directive 2007/16/EC of 19 March 2007 implementing Council Directive 85/611/EEC on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS) as regards the clarification of certain definitions.

3.0 The New Investment Services Rules for Retail Collective Investment Schemes

3.1 As indicated in 1.1 above, it is planned that the proposed revised SLCs for Maltese UCITS Schemes will be set out in Part B II of the new Investment Services Rules for Retail Collective Investment Schemes. The new Rules are to be divided into two main sections as described below.

Part A: The Application Process

3.2 This section is to provide:

i. a detailed description of the Application Process and is to include as Schedules, the relevant Application Documents for a collective investment scheme licence;
ii. an outline of the licensing requirements applicable to retail collective investment schemes including Maltese UCITS Schemes in terms of the Investment Services Act, 1994;
iii. a detailed description of the different classes of retail collective investment schemes;
iv. a description of the eligibility requirements to be satisfied by prospective Service Providers of a Maltese UCITS Scheme;
v. a non exhaustive list of documents to be submitted by an applicant in support of an application for a collective investment scheme licence;
vi. the requirements applicable for the licensing of additional sub-funds within an existing umbrella Scheme; and
vii. the requirements applicable for the approval of additional classes of shares of an existing Scheme (which classes of shares do not constitute one or more sub-funds).

Part B: Standard Licence Conditions

3.3 This section is to be divided into two parts and will include a number of Appendices. The SLCs for Maltese Non UCITS Schemes are to be set out in Part B I. As already indicated, Part B II is to include the Standard Licence Conditions for Maltese UCITS Schemes.

3.4 Subject to the requirements of the UCITS Directive (Directive 85/611/EC), some of the Standard Licence Conditions listed in Part B II may be disapplied or amended (where the circumstances justify such treatment, as long as investors are adequately protected) and Supplementary Conditions may be applied on a case by case basis where considered appropriate.

3.5 Part B II of the new Rules, the accompanying Glossary as well as the relevant Appendices thereto are enclosed as Annex I to this circular. A copy of this circular and accompanying Annexes will also available on MFSA's web-site www.mfsa.com.mt under the section Securities/ Collective Investment Schemes/ Circulars and Notices.

4.0 New requirements for Maltese UCITS Schemes

4.1 Enclosed as Annex II, is a table which includes a comparative analysis between the present Standard Licence Conditions applicable to Maltese UCITS Schemes included in Part C III of the current Investment Services Guidelines and the Standard Licence Conditions included in the proposed Part B II of the new Rules. The extent of revisions to the SLCs in Part C III marked as 'revised' vary from relatively minor revisions to significant revisions. Newly introduced SLCs

are marked as 'New'. Where applicable, the SLCs marked as "New" include a cross reference to the relevant section of one or more of the documents referred to above which they aim to transpose.

4.2 The more material changes to the Standard Licence Conditions included in Part C III of the current Investment Services Guidelines are outlined and explained below. The following should not however be construed as an exhaustive reference to all the changes being proposed, and Maltese UCITS Schemes and their Managers are expected to go through the revised SLCs and to familiarise themselves thoroughly with the proposed new Licence Conditions.

4.3 Appendices 5 (Information to be included in monthly returns to the MFSA), 6 (Publication of Annual and Half Yearly Reports), 8 (Distributions of Income) and 9 (Information to be included in Prospectus) of the current Investment Services Guidelines ("the old Appendices") which are applicable to Maltese UCITS Schemes feature as Appendices 5, 2, 4 and 1 to Part B of the new Rules ("the new Appendices") respectively. Appendices 1, 2 and 5 of the new Rules have been modelled and reflect the requirements included in the current Appendices to the Investment Services Guidelines, with the exception of a number of minor amendments. Appendix 4 of the new Rules is identical to Appendix 8 of the current Investment Services Guidelines.

Auditor (SLCs 2.22 – 2.27)

4.4 The proposed new SLCs include eligibility requirements applicable to the proposed Auditors of a Maltese UCITS Scheme and elaborate on the independence requirement applicable to such auditor.

4.5 A Maltese UCITS Scheme will also be required to obtain from its auditor a signed letter of engagement defining clearly the extent of the auditor's responsibilities and the terms of his/ her appointment. The letter of engagement will also be required to include some prescribed minimum information (SLC 2.25 refers).

Compliance Officer/ Money Laundering Reporting Officer (SLCs 3.1 – 3.10)

4.6 Maltese UCITS Schemes will be required to formally appoint a Compliance Officer and a Money Laundering Reporting Officer ("MLRO") (SLCs 3.2 and 3.8 refer).

4.7 The appointment and/ or replacement of a Compliance Officer and/ or an MLRO is also subject to MFSA's prior approval (SLCs 3.3 and 3.9 refer).

4.8 A Maltese UCITS will also be required to notify the MFSA of the resignation or removal of its Compliance Officer and/or MLRO upon becoming aware of the proposed resignation or removal (SLCs 3.4 and 3.10 refer).

Compliance Report (SLC 3.5)

4.9 The Compliance Officer will be required to prepare a "Compliance Report" at least on a six monthly basis which in the case of a Maltese UCITS Scheme taking the form of:

- an investment company, should be presented to the Directors;
- a Limited Partnership, should be presented to the General Partner; or
- a unit trust or common contractual fund, should be presented to the Manager and the Trustee.

4.10 The "Compliance Report" should indicate amongst others any:

i. breaches to the Investment and Borrowing Restrictions;
ii. complaints from unit holders in the Scheme and the manner in which these have been handled;
iii. material valuation errors (higher than 0.5 per cent of NAV) and the manner in which these have been handled; and
iv. material compliance issues during the period covered by the Compliance Report.

The "Compliance Report" shall also include a confirmation that all the local Prevention of Money Laundering requirements have been satisfied.

Clarifications on the definitions of Eligible Assets for Maltese UCITS (SLCs 4.4 – 4.15)

4.11 SLCs 4.4 to l 4.15 transpose a number of Articles (as specified in Annex I) of the Commission Directive 2007/16/EC of 19 March 2007 implementing Council Directive 85/611/EEC on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS) as regards the clarification of certain definitions.

Hedge Fund Indices as eligible Financial Indices (SLCs 4.16 – 4.18)

4.12 SLCs 4.16 till 4.18 transpose CESR's guidelines on the classification of hedge fund indices as financial indices (Ref: CESR/07-434)

Changes to the Investment Objectives, Policies and Restrictions of a Maltese UCITS Scheme (SLCs 5.51 and 5.52)

4.13 Maltese UCITS Schemes are generally expected to notify investors of material changes to the Investment Policies and Restrictions of the Scheme in advance of the change. This requirement has been specifically included in the proposed new Part B II of the new Rules.

4.14 Maltese UCITS Schemes are presently expected to seek the consent of investors in the Scheme before effecting any changes to the Investment Objectives. This requirement has been specifically included un the proposed new Part BII of the

new Rules and Maltese UCITS Schemes will accordingly be required to seek the prior approval of the Unit holders prior to changing their Investment Objective. It is being proposed that the change in the Investment Objectives should only become effective after all pending redemptions linked to the change in the said Objectives have been satisfied. Any applicable redemption fees would also need to be waived accordingly.

Prospectus (SLC 6.1)

4.15 Maltese UCITS Schemes set up as mutual funds or common contractual funds will be required to lodge a copy of their Prospectuses, authenticated by an authorised person on behalf of the Scheme, with the Securities Unit. The Securities Unit will pass on the documentation to the Registrar of Companies who will make the necessary arrangements to retain the documentation in an appropriate file for public access.

Constitutional Documents (SLC 8.2)

4.16 SLC 8.2 of Part B II of the new Rules specifically provides that changes to the Constitutional Documents of a Maltese UCITS Scheme will be subject to MFSA's prior approval.

Side Letters (SLC 9.1)

4.17 Maltese UCITS Schemes will not be allowed to enter into Side letters with one or more investors.

Assessment of Leverage and Total/ Global Exposure (SLCs 13.1 – 13.13)

4.18 SLCs 13.1 to 13.13 transpose the Commission Recommendation on the use of financial derivative instruments for undertakings for collective investment in transferable securities (UCITS) (2004/383/EC) and highlight MFSA's proposed position with respect to the methodology to be adopted by a Maltese UCITS Scheme in the assessment of its total global exposure to Financial Derivative Instruments and leverage.

Supplementary Conditions for Maltese UCITS Schemes set up as Limited Partnerships (SLCs 14.1 – 14.6)

4.19 SLCs 4.1 to 14.6 introduce a number of additional requirements for Maltese UCITS Schemes set up as Limited Partnership which mainly relate to the eligibility and approval requirements applicable to General Partners of such Maltese UCITS Schemes.

Independent Director (SLC15.2)

4.20 Maltese UCITS Schemes constituted as investment companies will be required to appoint at least one Director independent from the Manager and the Custodian of the Scheme.

Management of Conflict of Interests (SLC15.7)

4.21 SLC 15.7 includes a new requirement aimed at addressing the management of conflicts of interest of Directors of Maltese UCITS Scheme and the procedures to be adopted with respect to a Director who has a conflict of interest.

Supplementary Conditions for Self Managed Schemes (SLC16.1 – 16.14)

4.22 These Supplementary Conditions for self managed Maltese UCITS Schemes are aimed at formalising the role of the Board of Directors/ Investment Committee of the Scheme with respect to the management of the assets of the said Scheme (SLC16.5 and 16.6). These new SLCs also cover those instances when the Scheme delegates the day to day investment management of its assets to officials of the Scheme (referred to as "Portfolio Managers") or to a third Party Investment Managers (SLC16.8).

4.23 The appointment of a member of the Investment Committee, a Portfolio Manager or a third party Investment Manager by the Scheme will also be subject to MFSA's prior approval (SLC 16.9).

5.0 Consultation Period

5.1 We would be grateful for any comments you would like to make in relation to the proposed Part B II of the new Rules and the relevant Appendices thereto. Comments should be submitted in writing by not later than **Wednesday 24th October, 2007** addressed to:

The Director
Securities Unit
Malta Financial Services Authority
Notabile Road
Attard BKR 14

E-mail address: su@mfsa.com.mt

5.2 You may contact Mr. James Farrugia should you have any queries or require any clarifications regarding the above.

6.0 Way Forward

6.1 It is being proposed that following the end of the consultation period, once the proposed Standard Licence Conditions in Part B II of the new Rules are finalised and published, these will immediately become applicable to new Maltese UCITS Schemes[1] which may be established. Existing Maltese UCITS Schemes will be granted a transitional period to comply with the new Standard

[1]In the case of existing umbrella Schemes, "new Maltese UCITS" should not be interpreted as covering new Sub-Funds of existing Schemes.

Licence Conditions. Further details in this regard will be communicated upon official publication of the new requirements.

6.2 During the transitional period referred to above, existing Maltese UCITS Schemes will remain subject to the relevant sections of the current Investment Services Guidelines.

PART B - STANDARD LICENCE CONDITIONS

Part B II: Malta based UCITS Collective Investment Schemes

1. Introduction

1.1 In addition to the requirements included in this Part, the Scheme shall comply with the provisions of the relevant Regulations issued under the Investment Services Act, 1994, as may be amended or supplemented at any time, including the Investment Services Act (Performance Fees) Regulations, 2006, the Investment Services Act (Prospectus of Collective Investment Schemes) Regulations, 2005 and the Undertakings for Collective Investment in Transferable Securities Regulations, 2004 as amended.

1.2 Where the Scheme is:

i. In the form of a limited partnership whose capital is divided into shares, it shall also be subject to the *"Supplementary Conditions for Schemes established as Limited Partnerships"* set out in Section 14 of this Part.

ii. in the form of an investment company it shall also be subject to the *"Supplementary Conditions for Schemes established as Investment Companies"* set out in Section 15 of this Part.

iii. set up as a Self Managed Fund and has accordingly not appointed a Maltese Management Company as its designated investment manager, the Scheme shall also be subject to the *"Supplementary Conditions for Self Managed Schemes"* set out in Section 16 of this Part in lieu of SLC 2.2, 2.3, 2.4 and 2.5.

iv. set up as an Umbrella Fund, reference to "the Scheme" throughout this Part shall be construed, where applicable, as reference to the Sub-Funds of the Scheme. Moreover, the Scheme shall also be subject to the *"Supplementary Conditions for Schemes established as Umbrella Funds"* set out in Section 17 of this Part.

v. set up as a Fund of Funds, it shall also be subject to the *"Supplementary Conditions for Schemes established as Fund of Funds"* set out in Section 18 of this Part.

1.3 The MFSA shall be entitled to be satisfied, on a continuing basis, of the fitness and properness of any party appointed by the Scheme.

1.4 The Scheme shall organise and control its affairs in a responsible manner and shall have adequate operational, administrative and financial procedures and controls to ensure compliance with all regulatory requirements.

1.5 The MFSA has the right, from time to time, and following advance notification to the Scheme, to vary or revoke any Licence Condition or to impose any new conditions.

2. Service Providers

Manager

2.1 The Scheme may appoint a third party Manager approved by the MFSA with responsibility for the discretionary investment management of the assets of the Scheme.

2.2 The Manager shall have an established place of business in Malta and shall qualify as a Maltese Management Company pursuant to the Undertakings for Collective Investment in Transferable Securities Regulations, 2004 as amended. It shall have sufficient financial resources and liquidity at its disposal to enable it to conduct its business effectively and to meet its liabilities. The Manager shall also have the business organisation, systems, experience and expertise deemed necessary by the MFSA for it to act as Manager. The Scheme shall be required to satisfy the MFSA that the proposed Manager meets the above requirements.

2.3 The MFSA shall be entitled to be satisfied, on a continuing basis that the Manager of the Scheme has the appropriate expertise and experience to carry out its functions.

2.4 The appointment and/or the replacement of any party who is to be the Manager of the Scheme, the terms of that appointment, and the contents of the agreement to which the appointment is subject, shall be agreed in advance with the MFSA. The MFSA shall have the right to require the replacement of the Manager of the Scheme.

2.5 The Scheme shall ensure that where the Manager wishes to delegate to third parties, for the purpose of a more efficient conduct of its business, the carrying out on its behalf of one or more of its own functions, the relevant provisions of Part B of the Investment Services Rules for Investment Services Providers, dealing with outsourcing, shall apply, subject to the following additional requirements:

i. the Manager is to obtain the MFSA's prior consent to the outsourcing or delegation of any of its functions following submission of appropriate details as may be required by the MFSA;

ii. the mandate shall not prevent the effectiveness of supervision over the Manager, and in particular it shall not prevent the Manager from acting, or the UCITS from being managed, in the best interests of investors;

iii. when the delegation concerns the investment management, the mandate may only be given to undertakings which are authorised or licensed for the

purpose of asset management and subject to prudential supervision, and such delegation shall be in accordance with investment-allocation criteria periodically laid down by the Manager;

iv. a mandate with regard to the core function of investment management shall not be given to the Custodian or to any undertaking whose interests may conflict with those of the Manager or the unit-holders;

v. measures shall exist which enable the persons who conduct the business of the Manager to monitor effectively at any time the activity of the undertaking to which the mandate is given;

vi. the mandate shall not prevent the persons who conduct the business of the Manager to give at any time, further instructions to the undertaking to which functions are delegated and to withdraw the mandate with immediate effect when this is in the interest of investors;

vii. having regard to the nature of the functions to be delegated, the undertaking to which functions will be delegated shall be qualified and capable of performing the functions in question; and

viii. the Scheme's Full Prospectus is to list the functions which the Manager has been permitted to delegate.

In no case shall the Manager's liability be affected by the fact that the Manager delegated any functions to third parties, nor shall the Manager delegate functions to the extent that it becomes a "letter box/ brass plate" entity.

Administrator

2.6 The Scheme or the Manager may appoint an Administrator. Where an Administrator is not appointed, the Manager shall be responsible for the Administration function.

2.7 Where the Scheme or Manager appoints an Administrator, such Administrator shall have an established place of business in Malta and shall be a Recognised Administrator.

2.8 The Administrator shall have the business organisation, systems, experience and expertise deemed necessary by the MFSA for it to act as Administrator of the Scheme. The Scheme shall satisfy the MFSA that the proposed Administrator meets the above requirements.

2.9 The MFSA shall be entitled to be satisfied, on a continuing basis that the Administrator of the Scheme has the appropriate expertise and experience to carry out its functions.

2.10 The appointment and/or the replacement of any party who is to be the Administrator of the Scheme, the terms of that appointment, and the contents of the agreement to which the appointment is subject, shall be agreed in advance with the MFSA. The MFSA shall have the right to require the replacement of the Administrator of the Scheme.

Investment Adviser

2.11 The Scheme or the Manager may appoint an Investment Adviser.

2.12 Where the Scheme or Manager appoints an Investment Adviser, the Investment Adviser shall have sufficient financial resources and liquidity at its disposal to enable it to conduct its business effectively and to meet its liabilities. The Investment Adviser shall also have the business organisation, systems, experience and expertise deemed necessary by the MFSA for it to act as Investment Adviser. The Scheme shall be required to satisfy the MFSA that the proposed Investment adviser meets the above requirements.

2.13 The MFSA shall be entitled to be satisfied, on a continuing basis that the Investment Adviser has the appropriate expertise and experience to carry out its functions.

2.14 The appointment and/or the replacement of any party who is to be the Investment Adviser of the Scheme, the terms of that appointment, and the contents of the agreement to which the appointment is subject, shall be agreed in advance with the MFSA. The MFSA shall have the right to require the replacement of the Investment Adviser of the Scheme.

Custodian

2.15 The assets of the Scheme shall be entrusted to a Custodian for safekeeping. The Custodian shall also be responsible for monitoring the extent to which the Manager is abiding by the investment and borrowing powers laid out in the full Prospectus and otherwise in accordance with the provisions of the Constitutional Document of the Scheme and these Licence Conditions.

2.16 The Custodian shall be incorporated in and have an established place of business in Malta. The Custodian shall be:

i. a bank, credit or financial institution constituted, registered and licensed under the laws of Malta, or

ii. such other body corporate, unincorporated body or association acceptable to the MFSA, providing the services of a Custodian.

The Custodian shall have sufficient financial resources and liquidity at its disposal to enable it to conduct its business effectively and to meet its liabilities. The

Custodian shall also have the business organisation, systems, experience and expertise deemed necessary by the MFSA for it to act as Custodian. The Scheme shall be required to satisfy the MFSA that the proposed Custodian meets the above requirements.

2.17 The MFSA shall be entitled to be satisfied, on a continuing basis that the Custodian has the appropriate expertise and experience to carry out its functions.

2.18 The appointment and/or the replacement of any party who is to be the Custodian of the Scheme, the terms of that appointment, and the contents of the agreement to which the appointment is subject, shall be agreed in advance with the MFSA. The MFSA shall have the right to require the replacement of the Custodian of the Scheme.

2.19 The Custodian shall be separate and independent from the Manager and shall act independently and solely in the interests of the unit holders. Any facts, relationships, arrangements, or circumstances which may at any stage bring that independence into question shall be declared to the MFSA as soon as the Scheme becomes aware of any such matter.

Auditor

2.20 The Scheme shall appoint an auditor approved by the MFSA. The Scheme shall replace its auditor if requested to do so by the MFSA. The MFSA's consent shall be sought prior to the appointment or replacement of an auditor.

2.21 The MFSA shall be entitled to be satisfied, on a continuing basis that the auditor of the Scheme has the appropriate expertise and experience to carry out its functions.

2.22 The Scheme shall make available to its auditor, the information and explanations he/ she needs to discharge his/ her responsibilities as an auditor, and in order to meet the MFSA's requirements.

2.23 The Scheme shall not appoint an individual as an auditor, nor appoint an audit firm where the individual is directly responsible for the audit, or his/ her firm is:

i. a director, partner, qualifying shareholder, officer, representative or employee of the Scheme;

ii. a partner of, or in the employment of, any person in (i) above;

iii. a spouse, parent, step-parent, child, step-child or other close relative of any person in (i) above;

iv. a person who is not otherwise independent of the Scheme; or

v. a person disqualified by the MFSA from acting as an auditor of a Scheme.

For this purpose an auditor shall not be regarded as an officer or an employee of the Scheme solely by reason of being the auditor of that Scheme.

2.24 The Scheme shall obtain from its auditor a signed letter of engagement defining clearly the extent of the auditor's responsibilities and the terms of his/ her appointment. The Scheme shall confirm in writing to its auditor its agreement to the terms in the letter of engagement.

2.25 The letter of engagement shall include terms requiring the auditor:

i. to provide such information or verification to the MFSA as the MFSA may request;

ii. to afford another auditor all assistance as he/ she may require;

iii. to vacate his/ her office if he/ she becomes disqualified to act as auditor for any reason;

iv. to advise the MFSA of the fact and of the reasons for his/ her ceasing to hold office, if he/ she resigns, or is removed or not reappointed. The auditor shall also be required to advise the MFSA if there are matters he/ she considers should be brought to the attention of the MFSA;

v. in accordance with Article 18 of the Act, to report immediately to the MFSA any fact or decision of which he/ she becomes aware in his/ her capacity as auditor of the Scheme which:

- is likely to lead to a serious qualification or refusal of his audit report on the accounts of the Scheme; or

- constitutes or is likely to constitute a material breach of the legal and regulatory requirements applicable to the Scheme in or under the Act; or

- gravely impairs the Scheme's ability to continue as a going concern; or

- relates to any other matter which has been prescribed.

2.26 If at any time the Scheme fails to have an auditor in office for a period exceeding four weeks the MFSA shall be entitled to appoint a person to fill the vacancy; the fees and charges so incurred being payable by the Scheme.

2.27 In respect of each annual accounting period, the Scheme shall require its auditor to include in the annual report of the Scheme an audit report in a form approved by the MFSA. The Scheme shall notify the MFSA immediately if it is informed that its auditor intends to qualify the audit report.

3. Compliance Officer / Money Laundering Reporting Officer ("MLRO")

Compliance Officer

3.1 Responsibility for the Scheme's compliance with its licence conditions rests with the Board of Directors in the case of a Scheme set up as an investment company; with the General Partner(s) in the case of a Scheme set up as a limited partnership; or with the Manager in the case of a Scheme set up as a unit trust or common contractual fund.

3.2 The Scheme shall at all times have a Compliance Officer.

3.3 The Scheme shall obtain the written consent of the MFSA before the appointment or replacement of a Compliance Officer. The request for consent of the appointment or replacement of a Compliance Officer shall reach the MFSA at least twenty one business days prior to the proposed date of appointment and shall be accompanied by a Personal Questionnaire, in the form set out in Schedule E to Part A of these Rules duly completed by the person proposed. The MFSA reserves the right to object to the proposed appointment or replacement and to require such additional information it considers appropriate.

3.4 The Scheme shall notify the MFSA of the resignation or removal of its Compliance Officer upon becoming aware of the proposed resignation or removal. The Scheme shall also request the Compliance Officer to confirm to the MFSA that his departure had no regulatory implications or to provide relevant details, as appropriate. A copy of such request shall be provided to MFSA together with the Scheme's notification of departure.

3.5 The Scheme shall request its Compliance Officer to prepare a "Compliance Report" at least on a six monthly basis, which in the case of a Scheme taking the form of:

- an investment company, should be presented to the Board of Directors; or
- a limited partnership, should be presented to the General Partner; or
- a unit trust or common contractual fund, should be presented to the Manager and the Trustee.

The "Compliance Report" should indicate any:

i. breaches to the Investment and Borrowing Restrictions;

ii. complaints from unit holders in the Scheme and the manner in which these have been handled;

iii. material valuation errors (higher than 0.5 per cent of NAV) and the manner in which these have been handled; and

iv. material compliance issues during the period covered by the Compliance Report.

The "Compliance Report" shall also include a confirmation that all the local Prevention of Money Laundering requirements have been satisfied. This confirmation should be obtained from the Scheme's Money Laundering Reporting Officer.

3.6 A copy of the "Compliance Report" should be held in Malta at the registered office of the Scheme and made available to the MFSA during Compliance Visits.

Money Laundering Reporting Officer ("MLRO")

3.7 Responsibility for the Scheme's compliance with its Prevention of Money Laundering obligations rests with the Board of Directors in the case of a Scheme set up as an investment company; with the General Partner(s) in the case of a Scheme set up as a limited partnership; or with the Manager in the case of a Scheme set up as a unit trust or common contractual fund.

3.8 The Scheme shall at all times have an MLRO.

3.9 The Scheme shall obtain the written consent of the MFSA before the appointment or replacement of an MLRO. The request for consent of the appointment or replacement of an MLRO shall reach the MFSA at least twenty one business days prior to the proposed date of appointment and shall be accompanied by a Personal Questionnaire, in the form set out in Schedule E to Part A of these Rules duly completed by the person proposed. The MFSA reserves the right to object to the proposed appointment or replacement and to require such additional information it considers appropriate.

3.10 The Scheme shall notify the MFSA of the resignation or removal of its MLRO upon becoming aware of the proposed resignation or removal. The Scheme shall also request the MLRO to confirm to MFSA that his departure had no regulatory implications or to provide relevant details, as appropriate. A copy of such request shall be provided to MFSA together with the Scheme's notification of departure.

4. Permissible Investment Instruments

4.1 The investments of the Scheme shall consist solely of any or all of the following:

i. Transferable Securities and Money Market Instruments admitted to or dealt in on a Regulated Market within the meaning of Article 4(1) of the Markets in Financial Instruments Directive (Directive 2004/39/EC); and/or

ii. Transferable Securities and Money Market Instruments dealt in on another regulated market in a Member State which operates regularly and is recognized and open to the public; and/or

iii. Transferable Securities and Money Market Instruments admitted to official listing on a stock exchange in a non-Member State or dealt in on another regulated market in a non-Member State which operates regularly and is recognized and open to the public provided that the choice of stock exchange or market has been approved by the MFSA or is provided for in the Scheme's full Prospectus or the Scheme's Constitutional Documents; and/or

iv. recently issued Transferable Securities provided that:

a. the terms of issue include an undertaking that application will be made for admission to official listing on a stock exchange or to another regulated market which operates regularly and is recognized and open to the public, provided that the choice of stock exchange or market has been approved by the MFSA or is provided for in the Scheme's full Prospectus or the Scheme's instruments of incorporation;

b. such admission is secured within a year of issue; and/or

v. units of other UCITS Schemes authorised in terms of the UCITS Directive (Directive 85/611/EEC) and/or other collective investment schemes falling within the definition of a UCITS Scheme, should they be situated in a Member State or not provided that:

a. such other collective investment schemes are authorised under laws which provide that they are subject to supervision considered by MFSA to be equivalent to that laid down in Community law, and that co-operation between authorities is sufficiently ensured;

b. the level of protection for unit-holders in such other collective investment schemes is equivalent to that provided for unit-holders in a UCITS Scheme, and in particular that the rules on assets segregation, borrowing, lending and uncovered sales of Transferable Securities and Money Market Instruments are equivalent to the requirements of the UCITS Directive;

c. the business of the other collective investment schemes is reported in half-yearly and annual reports to enable investors to assess the assets and liabilities, income and operations over the reporting period;

d. no more than 10 per cent of the assets of the UCITS Schemes or of the other collective investment schemes whose acquisition is contemplated, can, according to their full Prospectus or instruments of incorporation, be invested in aggregate in units of other UCITS

Schemes or other collective investment schemes; and/or

vi. deposits with credit institutions which are repayable on demand or have the right to be withdrawn, and maturing in no more than 12 months, provided that the credit institution has its registered office in a Member State or, if the registered office of the credit institution is situated in a non-Member State, provided that it is subject to prudential rules considered by MFSA as equivalent to those laid down in Community Law; and/or

vii. Financial Derivative Instruments, including equivalent cash-settled instruments, dealt in on a regulated market referred to in paragraphs (i), (ii) and (iii) above; and/or Financial Derivative Instruments dealt in over-the-counter ("OTC-derivatives) provided that:

a. the underlying consists of instruments covered by this paragraph, financial indices, interest rates, foreign exchange rates or currencies, in which the Scheme may invest according to its investment objectives and stated in its full Prospectus or instruments of incorporation;

b. the counterparties to OTC-derivative transactions are institutions subject to prudential supervision, and belonging to the categories approved by the MFSA according to the criteria set out in SLC 5.23; and

c. the OTC-derivatives are subject to reliable and verifiable valuation on a daily basis and can be sold, liquidated or closed by an offsetting transaction at any time at their fair value at the Scheme's initiative; and/or

viii. Money Market Instruments, other than those dealt in on a regulated market, if the issue or issuer of such instruments is itself regulated for the purpose of protecting investors and savings, and provided that they are:

a. issued or guaranteed by a central, regional or local authority or central bank of a Member State, the European Central Bank, the European Union or the European Investment Bank, a non-Member State or, in the case of a Federal State, by one of the members making up the federation, or by a public international body to which one or more Member States belong; or

b. issued by an undertaking any securities of which are dealt on regulated markets referred to in paragraphs (i), (ii) or (iii) above; or

c. issued or guaranteed by an establishment subject to prudential supervision, in accordance with criteria defined by Community law, or by an establishment which is subject to and complies with prudential rules considered by the MFSA to be at least as stringent as those laid

down by Community law; or

d. issued by other bodies falling within the categories which the MFSA may from time to time prescribe, provided that investments in such instruments are subject to investor protection equivalent to that laid down in (a), (b) or (c) above and provided that the issuer:

- is a company whose capital and reserves amount to at least EUR 10 million and which presents and publishes its annual accounts in accordance with Directive 78/660/EEC;

- is an entity, within a group of companies, which includes one or several listed companies, is dedicated to the financing of the group; or

- is an entity which is dedicated to the financing of securitisation vehicles which benefit from a banking liquidity line.

4.2 Where the Scheme is set up as an investment company or a limited partnership, it may acquire movable and immovable property which is essential for the direct pursuit of its business.

4.3 The Scheme may not acquire precious metals or certificates representing them.

Transferable Securities

4.4 The Scheme or its Manager on its behalf shall ensure that the Transferable Securities referred to in SLC 4.1(i) to (iv) satisfy the following criteria:

i. the potential loss which the Scheme may incur with respect to holding these instruments is limited to the amount paid for them;

ii. their liquidity does not compromise the ability of the Scheme to comply with SLC 12.6;

iii. reliable valuation is available for them as follows:

a. in the case of securities admitted to or dealt in on a regulated market as referred to in SLC 4.1 (i) to (iv), in the form of accurate, reliable and regular prices which are either market prices or prices made available by valuation systems independent from issuers;

b. in the case of other securities as referred to in SLC 5.5, in the form of a valuation on a periodic basis which is derived from information from the issuer of the security or from competent investment research;

iv. appropriate information is available for them as follows:

a. in the case of securities admitted to or dealt in on a regulated market as referred to in SLC 4.1(i) to (iv), in the form of regular, accurate and comprehensive information to the market on the security or, where relevant, on the portfolio of the security;

b. in the case of other securities as referred to in SLC 5.5, in the form of regular and accurate information to the Scheme or its Manager on the security or, where relevant, on the portfolio of the security;

v. they are negotiable;

vi. their acquisition is consistent with the investment objectives or the investment policies, or both, of the Scheme;

vii. their risks are adequately captured by the risk management process of the Scheme or its Manager.

For the purposes of (ii) and (v) above, and unless there is information available to the Scheme or its Manager that would lead to a different determination, financial instruments which are admitted or dealt in on a regulated market in accordance with SLC 4.1 (i) to (iii) shall be presumed not to compromise the ability of the Scheme or its manager to comply with SLC 12.6 and shall also be presumed to be negotiable.

Money Market Instruments

4.5 The Scheme or its Manager on its behalf shall ensure that the Money Market Instruments referred to in SLC 4.1(viii) satisfy the following criteria:

i. they fulfil one of the following criteria:

a. they have a maturity at issuance of up to and including 397 days; or

b. they have a residual maturity of up to and including 397 days; or

c. they undergo regular yield adjustments in line with money market conditions at least every 397 days; or

d. their risk profile, including credit and interest rate risks, corresponds to that of financial instruments which have a maturity as referred to in (a) or (b), or are subject to a yield adjustment as referred to in point (c).

ii. they fulfil the following criteria:

a. they can be sold at limited cost in an adequately short time frame, taking into account the obligation of the Scheme to repurchase or

redeem its units at the request of any unit holder; and

b. they qualify as financial instruments for which accurate and reliable valuations systems, which fulfil the following criteria, are available:

- they enable the Scheme or its Manager or Administrator on its behalf to calculate a net asset value in accordance with the value at which the financial instrument held in the portfolio could be exchanged between knowledgeable willing parties in an arm's length transaction; and

- they are based either on market data or on valuation models including systems based on amortised costs.

iii. appropriate information is available for them, including information which allows an appropriate assessment of the credit risks related to the investment in such instruments; and

iv. they are freely transferable.

4.6 For Money Market Instruments referred to in SLC 4.1(viii)(b) and (d) and Money Market Instruments issued by a local or regional authority of a Member State or by a public international body but that are not guaranteed by a Member State or, in the case of a federal State which is a Member State, by one of the members making up the federation, *"appropriate information"* as referred to in SLC 4.5(iii) shall consist in the following:

i. information on both the issue or the issuance programme and the legal and financial situation of the issuer prior to the issue of the Money Market Instrument;

ii. updates of the information referred to in (i) above on a regular basis and whenever a significant event occurs;

iii. the information referred to in (i) above, verified by appropriately qualified third parties not subject to instructions from the issuer; and

iv. available and reliable statistics on the issue or the issuance programme.

4.7 For Money Market Instruments covered by SLC 4.1(viii)(c), *"appropriate information"* as referred to in SLC 4.5(iii) shall consist in the following:

i. information on the issue or issuance programme or on the legal and financial situation of the issuer prior to the issue of the Money Market Instrument;

ii. updates of the information referred to in (i) above on a regular basis and whenever a significant event occurs; and

iii. available and reliable statistics on the issue or issuance programme or other data enabling an appropriate assessment of the credit risks related to the investment in such instruments.

4.8 For all Money Market Instruments covered by SLC 4.1(viii)(a) except those referred to in SLC 4.6, and those issued by the European Central Bank or by a central bank from a Member State, *"appropriate information"* as referred to in SLC 4.5(iii) shall consist in information on the issue or the issuance programme or on the legal and financial situation of the issuer prior to the issue of the Money Market Instrument.

4.9 The reference in SLC 4.1(viii)(c) to *"an establishment which is subject to and complies with prudential rules considered by the MFSA to be at least as stringent as those laid down by Community law"* shall be understood as a reference to an issuer which is subject to and complies with prudential rules and fulfils one of the following criteria:

i. it is located in the European Economic Area;

ii. it is located in the OECD countries belonging to the Group of Ten;

iii. it has at least investment grade rating; and

iv. it can be demonstrated on the basis of an in-depth analysis of the issuer that the prudential rules applicable to that issuer are at least as stringent as those laid down by Community law.

4.10 The reference in SLC 4.1(viii)(d) to:

i. *"securitisation vehicles"* shall be understood as a reference to structures, whether in the corporate, trust or contractual form, set up for the purpose of securitisation operations; and

ii. *"banking liquidity lines"* shall be understood as a reference to banking facilities secured by a financial institution which itself complies with SLC 4.1(viii)(c).

Financial Derivative Instruments

4.11 The reference to *"liquid financial assets"* in Regulation 3(2)(a) of the Undertakings for Collective Investment in Transferable Securities Regulations, 2004 as amended, shall be understood, with respect to Financial Derivative Instruments, as a reference to Financial Derivative Instruments which fulfil the following criteria:

i. their underlyings consist of one or more of the following:

a. assets listed in SLC 4.1 including financial instruments having one or several characteristics of those assets;

b. interest rates;

c. foreign exchange rates or currencies;

d. financial indices.

ii. in the case of OTC-derivatives, they comply with the conditions set out in SLC 4.1(vii)(b) and (c).

The reference to *"liquid financial assets"* in this Regulation, shall however exclude derivatives on commodities.

4.12 Financial Derivative Instruments as referred to in SLC 4.1(vii) shall be taken to include instruments which fulfil the following criteria:

i. they allow the transfer of credit risk of an asset referred to in SLC 4.11(i) independently from the other risks associated with that asset;

ii. they do not result in the delivery or in the transfer, including in the form of cash, of assets other than those referred to in SLC 4.1, 4.2, 4.3 and 5.5;

iii. they comply with the criteria for OTC-derivatives laid down in SLC 4.1(vii)(b) and (c) and in SLC 4.13 and 4.14; and

iv. their risks are adequately captured by the risk management process of the Scheme or its Manager, and by its internal control mechanisms in the case of risks of asymmetry of information between the Scheme or its Manager and the counterparty to the credit derivative resulting from potential access of the counterparty to non-public information on firms the assets of which are used as underlying by credit derivatives.

4.13 For the purposes of the SLC 4.1(vii)(c), the reference to:

i. *"fair value"* shall be understood as a reference to the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

ii. *"reliable and verifiable valuation"* shall be understood as a reference to a valuation, by the Scheme or its Manager, corresponding to the fair value as referred to in (i) above which does not only rely on market quotations by the counterparty and which fulfils the following criteria:

a. the basis for the valuation is either a reliable up-to-date market value of

the instrument, or, if such a value is not available, a pricing model using an adequate recognised methodology;

b. verification of the valuation is carried out by one of the following:

- an appropriate third party which is independent from the counterparty of the OTC-derivative, at an adequate frequency and in such a way that the Scheme or its Manager is able to check it;

- a unit within the Scheme or its Manager which is independent from the department in charge of managing the assets and which is adequately equipped for such purpose.

4.14 The reference in SLC 4.1(vii) to *"financial indices"* shall be understood as a reference to indices which fulfil the following criteria:

i. they are sufficiently diversified, in that the following criteria are fulfilled:

a. the index is composed in such a way that price movements or trading activities regarding one component do not unduly influence the performance of the whole index;

b. where the index is composed of assets referred to in SLC 4.1, its composition is at least diversified in accordance with SLC 5.37;

c. where the index is composed of assets other than those referred to in SLC 4.1, it is diversified in a way which is equivalent to that provided for in SLC 5.37;

ii. they represent an adequate benchmark for the market to which they refer, in that the following criteria are fulfilled:

a. the index measures the performance of a representative group of underlyings in a relevant and appropriate way;

b. the index is revised or rebalanced periodically to ensure that it continues to reflect the markets to which it refers following criteria which are publicly available;

c. the underlyings are sufficiently liquid which allows users to replicate the index, if necessary;

iii. they are published in an appropriate manner, in that the following criteria are fulfilled:

a. their publication process relies on sound procedures to collect prices and to calculate and to subsequently publish the index value, including

pricing procedures for components where a market price is not available;

b. material information on matters such as index calculation, rebalancing methodologies, index changes or any operational difficulties in providing timely or accurate information is provided on a wide and timely basis.

4.15 Where the composition of assets which are used as underlyings by Financial Derivative Instruments in accordance with SLC 4.1 does not fulfil the criteria set out in SLC 4.14, those Financial Derivative Instruments shall, where they comply with the criteria set out in SLC 4.11, be regarded as Financial Derivative Instruments on a combination of the assets referred to in SLC 4.11(i)(a), (b) and (c).

4.16 A Hedge Fund Index qualifies as a financial index in terms of SLC 4.1(vii)(a) if it complies with the conditions laid down in SLC 4.14 and if the methodology of the index provides for the selection and the re-balancing of components on the basis of pre-determined rules and objective criteria.

4.17 Notwithstanding anything contained in SLC 4.16 a Hedge Fund Index does not qualify as a financial index in terms of SLC 4.1(vii)(a) if:

i. the index provider accepts payments from potential index components for the purpose of being included in the index; and

ii. the methodology of the index allows retrospective changes to previously published index values ("backfilling").

4.18 When gaining exposure to a hedge fund index, the Scheme or its Manager shall carry out appropriate due diligence in order to assess the "quality" of the index. In assessing the quality of the index, the Scheme or its Manager shall take into account at least the following factors:

i. the comprehensiveness of the index methodology, including:

a. whether the methodology contains an adequate explanation of subjects such as the weighting and classification of components (e.g. on the basis of the investment strategy of the selected hedge funds), and the treatment of defunct components; and

b. whether the index represents an adequate benchmark for the kind of hedge funds to which it refers;

ii. the availability of information about the index, including:

a. whether there is a clear narrative description of what the index is trying

to represent;

b. whether the index is subject to an independent audit and the scope of the audit (e.g. that the index methodology has been followed, that the index has been calculated correctly); and

c. how frequently the index is published and whether this will affect the ability of the Scheme to accurately calculate its Net Asset Value;

iii. matters relating to the treatment of index components, including:

a. the procedures by which the index provider carries out any due diligence on the NAV calculation procedures of index components;

b. what level of detail about the index components and their NAVs are made available (including whether they are investable or non-investable); and

c. whether the number of components in the index achieves sufficient diversification.

Records evidencing compliance with this requirement shall be held at the registered office of the Scheme and should be made available to the MFSA during compliance visits.

5. Investment Objectives, Policies and Restrictions

5.1 The Scheme shall observe its Investment Objectives, Policies and Restrictions.

Breaches of Investment Restrictions

5.2 The following shall be the rules applicable in the event of inadvertent breach of the Scheme's investment restrictions:

i. If one or more of the Scheme's investment restrictions are at any time contravened for reasons beyond the control of the Manager or the Scheme or as a result of subscription rights, the Manager or the Scheme shall take such steps as are necessary to ensure a restoration of compliance with such restriction(s) as soon as is reasonably practicable having regard to the interests of the unit-holders and, in any event, within the period of six months beginning on the date of discovery of the contravention of such restriction(s).

The above is aimed at addressing circumstances which may arise following acquisition of the Scheme's assets and include market price movements of the Scheme's underlying assets or market illiquidity. The above is without prejudice to the duty of the Scheme to comply with its investment restrictions and to ensure that such restrictions are not contravened as a direct result of

any acquisition of its underlying assets.

ii. Forthwith upon the Custodian becoming aware that circumstances of a kind described above have arisen, the Custodian shall take such steps as are necessary to ensure that the Scheme or Manager comply with the requirement imposed by (i) above.

iii. A contravention of an investment restriction which may arise due to the circumstances outlined in (i) above shall not be considered as a breach of a licence condition and will therefore not be subject to the MFSA's notification requirements. However, where the contravention is not remedied by the Manager or Scheme within the maximum six month period stipulated in (i) above, a breach of this Licence Condition is deemed to arise and the relevant notification requirements will apply.

Disclosure in Prospectus

5.3 The Scheme's investment policies shall be clearly defined in the Scheme's full Prospectus, and sufficient information shall be given to ensure that holders of Units are fully aware of the risks to which they will be exposed.

Ancillary Liquid Cash

5.4 The Scheme may hold ancillary liquid assets.

Investments in Transferable Securities and Money Market Instruments

5.5 The Scheme may not invest more than 10 per cent of its assets in Transferable Securities and Money Market Instruments other than those referred to in SLC 4.1 above.

5.6 The Scheme shall not invest more than 5 per cent of its assets in Transferable Securities or Money Market Instruments issued by the same body.

5.7 The limit of 5 per cent in SLC 5.6 may be raised to a maximum of 10 per cent of the Scheme's assets. Provided that the total value of securities held in bodies in which it invests more than 5 per cent, is less than 40 per cent. This limitation does not apply to deposits and OTC-derivative transactions made with financial institutions subject to prudential supervision

5.8 For the purposes of determining the 40 per cent limit indicated in SLC 5.7, the Transferable Securities and Money Market Instruments referred to in SLC 5.9 and SLC 5.10 below, shall not be taken into account.

5.9 The limit of 5 per cent in SLC 5.6 may be raised to a maximum of 35 per cent if the Transferable Securities or Money Market Instruments are issued or guaranteed by a Member State, or by its local authorities, by a non-Member State or by public

international bodies to which one or more Member States belong. Provided that this limit may be waived in accordance with SLC 5.11.

5.10 The limit of 5 percent in SLC 5.6 may be raised to a maximum of 25 per cent in the case of certain bonds when these are issued by a credit institution which has its registered office in a Member State and is subject by law to special public supervision designed to protect bond-holders. In particular, sums deriving from the issue of these bonds shall be invested in conformity with the law in assets which, during the whole period of validity of the bonds, are capable of covering claims attaching to the bonds and which, in the event of failure of the issuer, would be used on a priority basis for the reimbursement of the principal and payment of the accrued interest. Provided that when the Scheme invests more than 5% of its assets in the bonds referred to above and issued by one issuer, the total value of these bonds may not exceed 80 per cent of the value of the assets of the Scheme.

5.11 By way of derogation from SLC 5.6 to 5.10, 5.12, 5.14, 5.35 and 5.36, the MFSA may authorize the Scheme to invest in accordance with the principle of risk-spreading up to 100 per cent of its assets in different Transferable Securities or Money Market Instruments issued or guaranteed by any Member State, its local authorities, a non-Member State or public international bodies of which one or more Member States are members, provided it is satisfied that unit-holders in the Scheme have protection equivalent to that of unit-holders in a Scheme complying with the limits laid down in SLC 5.6 to 5.10, 5.12, 5.14, 5.35 and 5.36. The following conditions shall apply:

i. the Scheme shall hold securities from at least six different issues, but securities from any one issue may not account for more than 30 per cent of its total assets;

ii. the Scheme shall disclose in its full Prospectus the names of the States, local authorities or public international bodies issuing or guaranteeing securities in which they intend to invest more than 35 per cent of their assets; and

iii. the Scheme's full Prospectus and any promotional material shall include a prominent statement drawing attention to such authorization and indicating the States, local authorities and/ or public international bodies in the securities of which it intends to invest or has invested more than 35 per cent of its assets.

Deposits with Credit Institutions

5.12 Not more than 20 per cent of the assets of the Scheme shall be kept on deposit with any one body.

Transactions in Financial Derivative Instruments – for investment and/or efficient portfolio management purposes

5.13 The Scheme may transact in Financial Derivative Instruments as long as:

i. the transaction involves Financial Derivative Instruments of the kind specified in SLC 4.1(vii);

ii. the transaction in the Financial Derivative Instrument does not cause the Scheme to diverge from its investment objectives as laid down in the Scheme's constitutional documents and/or full Prospectus.

5.14 The Scheme's maximum exposure to one counterparty in an OTC-derivative transaction shall not be more than 5 per cent of the value of the assets of the Scheme. This limit may be increased to 10 per cent in respect of OTC-derivative transactions made with a counterparty which is a credit institution as described in SLC 4.1(vi). The exposure per counterparty of an OTC-derivative should not be measured on the basis of the notional value of the OTC-derivative, but on the maximum potential loss incurred by the Scheme if the counterparty defaults.

5.15 The exposure to one counterparty in an OTC-derivative transaction may be reduced where the counterparty provides the Scheme with collateral which satisfies the following criteria:

i. the collateral falls within one of the following categories:

a. cash;

b. government or other public securities;

c. certificates of deposit issued by Relevant Institutions; and

d. bonds/commercial paper issued by Relevant Institutions;

ii. collateral is:

a. marked to market daily;

b. transferred to the custodian, or its agent; and

c. immediately available to the Scheme, without recourse to the counterparty, in the event of a default by that entity;

iii. in the case of non-cash collateral, the collateral:

a. cannot be sold or pledged;

b. has a minimum credit rating of A or equivalent;

c. is held at the credit risk of the counterparty; and

d. is issued by an entity independent of the counterparty;

iv. in the case of cash collateral, the collateral may not be invested other than in the following:

a. deposits with relevant institutions, which are capable of being withdrawn within 5 working days;

b. government or other public securities which have a minimum credit rating of A or equivalent;

c. certificates of deposit issued by relevant institutions, which have a minimum credit rating of A or equivalent; and

d. daily dealing Qualifying Money Market Funds which have a minimum credit rating of AAA or equivalent.

Invested cash collateral which is held at the credit risk of the Scheme, other than cash collateral invested in government or other public securities or Qualifying Money Market Funds, shall be diversified so that no more than 20 per cent of the collateral is invested in the securities of, or placed on deposit with, one institution. Invested cash collateral may not be placed on deposit with, or invested in securities issued by the counterparty or a related entity.

5.16 The Scheme may net the mark-to-market value of its OTC-derivative positions with the same counterparty, thus reducing the Scheme's exposure to its counterparty, provided that the Scheme has a contractual netting agreement with its counterparty which creates a single legal obligation such that, in the event of the counterparty's failure to perform owing to default, bankruptcy, liquidation or any other similar circumstance, the Scheme would have a claim to receive or an obligation to pay only the net sum of the positive and negative mark-to-market values of included individual transactions.

5.17 Derivative transactions which are performed on an exchange where the clearinghouse meets the following conditions shall be deemed to be free of counterparty risk:

i. is backed by an appropriate performance guarantee;

ii. is characterised by a daily mark-to-market valuation of the derivative positions; and

iii. is subject to at least daily margining.

5.18 The MFSA may authorise the Scheme to employ techniques and instruments for the purpose of efficient portfolio management which include the use of

Transferable Securities and Money Market Instruments. These operations may concern the use of Financial Derivative Instruments.

The reference in this SLC to techniques and instruments which relate to Transferable Securities and which are used for the purpose of efficient portfolio management shall be understood as a reference to techniques and instruments which fulfil the following criteria:

i. they are economically appropriate in that they are realised in a cost-effective way;

ii. they are entered into for one or more of the following specific aims:

   a. reduction of risk; or

   b. reduction of cost; or

   c. generation of additional capital or income for the Scheme with a level of risk which is consistent with the risk profile of the Scheme and the risk diversification rules laid down in SLC 5.6 to 5.10, 5.12, 5.14, 5.35 and 5.36; and

iii. their risks are adequately captured by the risk management process of the Scheme or its Manager.

Techniques and instruments which comply with the criteria set out in the second paragraph of this SLC and which relate to Money Market Instruments shall be regarded as techniques and instruments relating to Money Market Instruments for the purpose of efficient portfolio management.

5.19 The Scheme shall ensure that its global exposure relating to Financial Derivative Instruments does not exceed the total net value of its portfolio. The exposure is calculated taking into account:

i. the current value of the underlying asset;

ii. the counterparty risk;

iii. future market movements; and

iv. the time available to liquidate positions

The Scheme's overall risk exposure may not exceed 200 per cent of its NAV on a permanent basis.

The Scheme's total/ global exposure relating to Financial Derivative Instruments should be assessed in line with the requirements included in Section 13 of this Part.

5.20 Where the Scheme invests in Financial Derivative Instruments as part of its investment policies and within the limits established by SLC 5.8 and 5.36, the exposure to the underlying assets shall not exceed in aggregate the limits in SLC 5.6 to 5.10, 5.12, 5.14, 5.35 and 5.36. The exposure to the underlying assets should be calculated using the Commitment Approach as indicated in Section 13 of this Part.

5.21 Subject to MFSA approval, where the Scheme invests in an index based Financial Derivative Instrument, provided the relevant index meets the criteria in SLC 4.14 and 5.37 for approval of indices by the MFSA, these investments do not have to be combined to the limits laid down in SLC 5.6 to 5.10, 5.12, 5.14, 5.35 and 5.36.

5.22 Where a Transferable Security or Money Market Instrument embeds a Financial Derivative Instrument, this derivative transaction shall be taken into account for the purposes of complying with the limits in SLC 5.13, 5.18 to 5.21, 5.26 and 5.27. The exposure to the underlying assets should be calculated using the Commitment Approach as indicated in Section 13 of this Part. In cases where this approach is not relevant or technically impossible, due to the complexity of the concerned Financial Derivative Instrument, the Scheme may use an approach based on the maximum potential loss linked to that Financial Derivative Instrument.

The reference in this paragraph to Transferable Securities embedding a Financial Derivative Instrument shall be understood as a reference to financial instruments which fulfil the criteria set out in SLC 4.4 and which contain a component which fulfils the following criteria:

i. by virtue of that component some or all of the cash flows that otherwise would be required by the Transferable Security which functions as host contract can be modified according to a specified interest rate, financial instrument price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, and therefore vary in a way similar to a stand-alone Financial Derivative Instrument;

ii. its economic characteristics and risks are not closely related to the economic characteristics and risks of the host contract; and

iii. it has a significant impact on the risk profile and pricing of the Transferable Security.

Money Market Instruments which fulfil one of the criteria set out in SLC 4.5(i) and all the criteria set out in SLC 4.5(ii) and which contain a component which fulfils the criteria set out in the second paragraph of this SLC shall be regarded as Money Market Instruments embedding a Financial Derivative Instrument.

A Transferable Security or a Money Market Instrument shall not be regarded as embedding a Financial Derivative Instrument where it contains a component which

is contractually transferable independently of the Transferable Security or the Money Market Instrument. Such a component shall be deemed to be a separate financial instrument.

5.23 The Scheme shall only enter into transactions for direct investment in Financial Derivative Instruments or for efficient portfolio management/ hedging by means of Financial Derivative Instruments with counterparties who:

i. are not the Manager or Custodian of the Scheme; and

ii. form part of a group whose head office or parent company is licensed, registered or based in Malta, any member of the OECD, the EU or the EEA and is subject to prudential supervision in accordance with provisions equivalent to Directive 93/6/EEC or Directives 73/239/EEC and 79/267/EEC as amended; and

iii. have a credit rating of at least A (Standards & Poor's) or A2 (Moody's) or an equivalent rating by another internationally renowned credit rating agency.

In the case of OTC transactions, such counterparty shall satisfy the Manager or the Scheme that it has:

– agreed to value the transaction at least weekly; and

– will close out the transaction at the request of the Manager or the Scheme at fair value.

5.24 When the Scheme holds a Financial Derivative Instrument which automatically or at the Scheme's discretion, requires cash settlement on maturity or exercise, the Scheme does not necessarily have to hold the underlying instrument as cover. In such case, the following categories may be acceptable as cover:

i. cash;

ii. liquid debt instruments (eg government bonds of first credit rating) prudently adjusted by appropriate haircuts (minimum of 5 per cent); and

iii. other highly liquid assets which are correlated with the underlying of the Financial Derivative Instruments, prudently adjusted by appropriate haircuts (minimum 5 per cent).

The level of cover should be calculated using the Commitment Approach as indicated in Section 13 of this Part. The assets held for cover should consist solely of instruments listed in SLC 4.1 and should be compliant with the investment policies of the Scheme.

For the purposes of the above, the instruments held as cover should be considered

as 'liquid' when they can be converted into cash at no more than 7 business days at a price closely corresponding to the current valuation of the financial instrument. It has to be ensured that the respective cash amount is at the Scheme's disposal at the maturity / expiry or exercise date of the Financial Derivative Instrument.

5.25 When the Scheme holds a Financial Derivative Instrument which automatically or at the counterparty's discretion, requires the physical delivery of the underlying financial instrument, on maturity or exercise, the Scheme has to hold the underlying instrument as cover at all times. However, the Scheme may alternatively cover the exposure with sufficient liquid assets provided that the following requirements are satisfied:

i. the risks of the underlying can be appropriately represented by another financial instrument; and/ or

ii. the underlying financial instrument is highly liquid; and/or

iii. the liquid assets held as cover can be used at any time to purchase the underlying financial instrument to be delivered; and/ or

iv. the additional risk associated with the transaction referred to in paragraph (iii) above are adequately covered by the Risk Management Process of the Scheme or its Manager.

The level of cover should be calculated using the Commitment Approach as indicated in Section 13 of this Part. The assets held for cover should consist solely of instruments listed in SLC 4.1 and should be compliant with the investment policies of the Scheme.

For the purposes of the above, the instruments held as cover should be considered as 'liquid' when they can be converted into cash at no more than 7 business days at a price closely corresponding to the current valuation of the financial instrument. It has to be ensured that the respective cash amount is at the Scheme's disposal at the maturity / expiry or exercise date of the Financial Derivative Instrument.

Risk Management Process

5.26 The Scheme or its Manager shall use a risk management process, which is adapted to the relevant risk-profile of the Scheme, enabling it to monitor, and measure and manage at any time as frequently as appropriate, all material risks relating to the Scheme's positions and their contribution to the overall risk profile of the Scheme. Upon request of an investor, the Scheme or its Manager on its behalf shall provide supplementary information relating to the quantitative limits that apply in the risk management of the Scheme, the methods chosen to this end and to the recent evolution of the main instrument categories' risks and yields.

5.27 The following details of the risk management process shall be notified by the

Scheme or its Manager to the MFSA in advance, along with any material alteration:

i. the methods for estimating risks in derivative transactions; and

ii. the types of Financial Derivative Instruments to be used within the Scheme together with their underlying risks and any relevant quantitative limits.

5.28 The risk management process should take account of the investment objectives and policies of the Scheme as stated in the most recent full Prospectus.

5.29 The risk management process and any material alteration should be agreed in advance with the Custodian and the MFSA.

5.30 The Scheme or its Manager is expected to demonstrate more sophistication in its risk management process for a Scheme with a complex risk profile than for one with a simple risk profile. In particular, the risk management process should take account of any characteristic of non-linear dependence in the value of a position to its underlying.

5.31 The Scheme should take reasonable care to establish and maintain such systems and controls as are appropriate to its business.

5.32 The risk management process should enable the analysis required by SLC 5.26 to be undertaken at least daily or at each valuation point whichever is the more frequent.

5.33 The Scheme or its Manager shall employ a process for accurate and independent assessment of the value of any OTC-derivative instruments which are made use of.

Uncovered Sales

5.34 The Scheme may not carry out uncovered sales of Transferable Securities, Money Market Instruments or other financial instruments referred to in SLC 4.1(v), (vii) and (viii). Uncovered sales are all transactions in which the Scheme is exposed to the risk of having to buy securities at a higher price than the price at which the securities are delivered, thus making a loss, and the risk of not being able to deliver the underlying for settlement at the time of the maturity of the transaction.

General Restrictions – Single Issuer Exposures

5.35 Notwithstanding the individual limits laid down in SLC 5.6, 5.12, and 5.14, the Scheme may not combine:

i. investments in Transferable Securities or Money Market Instruments issued by; and

ii. deposits made with; and

iii. counterparty exposures arising from OTC-derivative transactions undertaken with; and

iv. other exposures arising from OTC-derivative transactions relating to;

a single body in excess of 20 per cent of its assets.

5.36 The limits provided for in SLC 5.6, 5.7, 5.9, 5.10, 5.12, 5.14 and 5.35 may not be combined, and thus investments in Transferable Securities or Money Market Instruments issued by the same body or in deposits or Financial Derivative Instruments made with this body carried out in accordance with the above-mentioned SLC shall under no circumstances exceed in total 35 per cent of the assets of the Scheme. Companies which are included in the same group for the purposes of consolidated accounts as defined in Directive 83/349/EEC in accordance with recognized international accounting rules, are regarded as a single body for the purpose of calculating the limits contained in this SLC. Subject to approval by MFSA, the Scheme may effect a cumulative investment in Transferable Securities and Money Market Instruments within the same group up to a limit of 20 per cent.

Investments in Shares and Bonds for Tracking an Index

5.37 Without prejudice to the limits laid down in SLC 5.44 to 5.46, the limits laid down in SLC 5.6 and 5.7 may be raised to a maximum of 20 per cent for investment in shares and/or debt securities issued by the same body, where the investment policy of the Scheme as stated in the most recently published full Prospectus, is to replicate the composition of a certain stock or debt securities index which is recognised by the MFSA, on the following basis:

i. its composition is sufficiently diversified in that it complies with the risk diversification rules in this SLC;

ii. the index represents an adequate benchmark for the market to which it refers, in that the index provider uses a recognised methodology which generally does not result in the exclusion of a major issuer of the market to which it refers; and

iii. it is published in an appropriate manner, in that the index fulfils the following criteria:

a. it is accessible to the public; and

b. the index provider is independent from the Scheme.

Point (b) shall not preclude index providers and the Scheme forming part of

the same economic group, provided that effective arrangements for the management of conflicts of interest are in place.

The above 20 per cent limit may, subject to MFSA approval, be raised to a maximum of 35 per cent, where it proves to be justified by exceptional market conditions, in particular in regulated markets where certain Transferable Securities or Money Market Instruments are highly dominant. The investment up to this limit is only permitted for a single issuer.

The reference in this SLC to *"replicate the composition of a certain stock or debt securities index"* shall be understood as a reference to the replication of the composition of the underlying assets of an index, including the use of Financial Derivative Instruments or other techniques and instruments as referred to in SLC 5.18.

Investments in Other UCITS and / or Other Collective Investment Schemes

5.38 The Scheme may acquire the units of a UCITS and/or other collective investment schemes referred to in SLC 4.1(v), provided that no more than 20 per cent of its assets are invested in units of a single UCITS or other collective investment scheme.

5.39 Investments made in units of collective investment schemes other than UCITS, may not exceed, in aggregate, 30 per cent of the assets of the Scheme.

5.40 Subject to MFSA approval, when the Scheme has acquired units of UCITS and/or other collective investment schemes, the assets of the respective UCITS or other collective investment schemes do not have to be combined for the purposes of the limits laid down in SLC 5.6 to 5.10, 5.12, 5.14, 5.35 and 5.36.

5.41 When the Scheme invests in the Units of another UCITS and/or other collective investment schemes that are managed, directly or by delegation, by the Manager or by any other company with which the Manager is linked by common management or control, or by a substantial direct or indirect holding, the Manager or other company may not charge subscription or redemption fees on account of the Scheme's investment in the units of such other UCITS and/or collective investment schemes.

5.42 Where a commission is received by the Manager by virtue of an investment in the Units of another Scheme, that commission shall be paid into the property of the Scheme.

5.43 Where the Scheme invests a substantial proportion of its assets in other UCITS Schemes and/or collective investment schemes it shall disclose in its full Prospectus, the maximum level of the management fees that may be charged both to the Scheme itself and to the other UCITS Schemes and/or collective investment schemes in which it intends to invest. In its annual report, it shall indicate the

maximum proportion of management fees charged both to the Scheme itself and to the UCITS and/or other collective investment scheme in which it invests.

5.44 The Scheme or its Manager, taking into account all of the schemes which the latter manages, shall not acquire any shares carrying voting rights which would enable it to exercise significant influence over the management of the issuer.

5.45 The Scheme may acquire no more than:

i. 10 per cent of the non-voting shares of any single issuing body;

ii. 10 per cent of the debt securities of any single issuing body;

iii. 25 per cent of the units of any single UCITS and/or other collective investment schemes within the meaning of Art 1(2) of the UCITS Directive (Directive 85/611/EEC); and

iv. 10 per cent of the Money Market Instruments of any single issuing body.

The limits laid out in (ii), (iii) and (iv) above, may be disregarded at the time of acquisition if at that time, the gross amount of the debt securities or of the Money Market Instruments, or the net amount of the securities in issue, cannot be calculated.

5.46 Subject to MFSA approval, SLC 5.44 and 5.45 may be waived as regards:

i. Transferable Securities and Money Market Instruments issued or guaranteed by a Member State or its local authorities;

ii. Transferable Securities and Money Market Instruments guaranteed by non-Member States;

iii. Transferable Securities and Money Market Instruments issued by public international bodies of which one or more Member States are members;

iv. shares held by the Scheme in the capital of a company incorporated in a non-Member State investing its assets mainly in securities of issuing bodies having their registered offices in that State, where, under the legislation of that State, such a holding represents the only way in which the Scheme can invest in the securities of issuing bodies of that State. This derogation, however, shall apply only if in its investment policies, the company from the non-Member State complies with the limits laid down in SLC 5.6 to 5.10, 5.12, 5.14, 5.35, 5.36, 5.38 to 5.41 and 5.43 to 5.45. Where the limits set in SLC 5.6 to 5.10, 5.12, 5.14, 5.35, 5.36, 5.38 to 5.41 and 5.43 are exceeded, SLC 5.2, 5.48 and 5.49 shall apply mutatis mutandis; and

v. shares held by the Scheme in the capital of subsidiary companies carrying on

only the business of management, advice or marketing in the country where the subsidiary is located, in regard to the repurchase of units at unit-holder's request exclusively on its or their behalf.

Borrowing Limits

5.47 The Scheme may borrow:

i. up to a maximum of 10 per cent of:

a. its assets, when the Scheme is set up as an investment company or a limited partnership; or

b. the value of the Scheme, when the Scheme is set up as a unit trust or common contractual fund.

Provided that the borrowing is on a temporary basis and such that the Scheme's overall risk exposure does not exceed 210 per cent of its NAV under any circumstances. Provided further that the Scheme may acquire foreign currency by means of a 'back to back' loan.

ii. up to a maximum of 10 per cent of its assets, in the case of an investment company or a limited partnership, provided that the borrowing is to make possible the acquisition of immovable property essential for the direct pursuit of its business; in which case the borrowing and that referred to in paragraph (i) above, may in total not exceed 115 per cent of the borrower's assets.

Miscellaneous

5.48 Provided the principle of risk-spreading is observed, the Scheme shall not be required to comply with the investment restrictions in SLC 5.6 to 5.12, 5.14, 5.35 to 5.41 and 5.43, during the first six months from its launch.

5.49 The Scheme is not required to comply with the investment limits laid down in this Section 5 when exercising subscription rights attaching to Transferable Securities or Money Market Instruments, which form part of their assets.

5.50 Without prejudice to SLC 4.1, 4.2, 4.3, 5.4, 5.5, 5.13, 5.18 to 5.22, 5.26, 5.27 and 5.33, the Scheme shall not grant loans or act as guarantor on behalf of third parties.

The above shall not prevent such undertakings from acquiring Transferable Securities, Money Market Instruments or other financial instrument referred to in SLC 4.1(v), (vii) and (viii) which are not fully paid.

5.51 Material changes to the Investment Policies and Restrictions of the Scheme shall be notified to investors in advance of the change.

5.52 Changes to the Investment Objectives of the Scheme shall be subject to the prior approval of the Unitholders of the Scheme. The change in the investment objectives should only become effective after all pending redemptions linked to the change in the investment objectives have been satisfied. Any applicable redemption fees would also need to be waived accordingly.

6. Prospectus

6.1 The Scheme and/ or its Manager shall publish a simplified and full Prospectus. Both the simplified and full Prospectus shall be dated and the essential elements of which shall be kept up to date. The simplified Prospectus shall always be offered to investors free of charge before they commit to investing. The full Prospectus shall be offered to the investor free of charge on request. In addition:

i. where the Scheme is in the form of an investment company or a limited partnership registered in Malta, it shall lodge a signed copy of the Prospectuses with the Registrar of Companies. These Prospectuses shall be made available for inspection by the public.

ii. where (i) above is not applicable, a Scheme whose structure is other than in a corporate form shall lodge a copy of the Prospectuses, authenticated by an authorised person on behalf of the Scheme, with MFSA's Securities Unit. This Unit will pass on the documentation to the Registrar of Companies who will make the necessary arrangements to retain the documentation in an appropriate file for public access.

6.2 Where the full Prospectus is made available by publication in electronic form, a paper copy shall nevertheless be delivered to the investor upon his request and free of charge, by the Scheme or the financial intermediaries placing or selling the Scheme's units.

6.3 The full Prospectus of the Scheme shall be made available in a printed form at the registered office of the Scheme or its Manager or other financial intermediaries placing or selling the units in the Scheme.

6.4 The Simplified and full Prospectus and any amendments thereto shall be sent to and agreed with the MFSA before publication.

6.5 Both the simplified and full Prospectus shall contain sufficient information for investors to make an informed judgment about the investment proposed to them, and, in particular, of the risks attached thereto. The latter shall include, irrespective of the instruments invested in, a clear and easily understandable explanation of the Scheme's risk profile.

6.6 The text and the format of the full Prospectus, and/or the Simplified Prospectus, published or made available to the public, shall at all times be identical to the latest version approved by the MFSA.

6.7 The full Prospectus shall contain at least the information listed in Annex II of Appendix I, in so far as that information does not already appear in the Scheme rules or instruments of incorporation annexed to the full Prospectus in accordance with the requirements of the above-mentioned Schedule.

6.8 The Simplified Prospectus shall contain in summary form the key information provided in Annex IV of Appendix I. It shall be structured and written in such a way that it can be easily understood by the average investor.

6.9 The Scheme shall comply with the relevant requirements laid out in the Investment Services Act (Prospectus of Collective Investment Schemes) Regulations, 2005 as may be amended from time to time.

7. Constitutional Document

7.1 The Constitutional Document of the Scheme shall contain at least the information listed in Appendix III.

7.2 Any changes to the Constitutional Document of the Scheme shall be approved by the MFSA in advance of implementation.

8. Promotion

8.1 The promotion of the Scheme is subject to Article 11 of the Act and to the requirements of Section 3 of Part B of the Investment Services Rules for Investment Services Providers as more fully explained in the relevant Guidance Notes issued by the MFSA.

8.2 The Scheme may only be promoted in jurisdictions outside Malta if it satisfies the relevant rules of such jurisdictions.

8.3 All Investment Advertisements issued directly by the Scheme shall be approved by the Compliance Officer. All promotional material issued directly by the Scheme shall indicate that a full Prospectus exists and the places where it, and any documents updating it, may be obtained.

8.4 The Scheme shall make public in an appropriate manner, the issue, sale, re-purchase or redemption price of its units each time it issues, sells, re-purchases or redeems them, and at least twice a month. The MFSA may, however permit the Scheme to reduce the frequency to once a month on condition that such a derogation does not prejudice the interests of unit-holders.

9. Side Letters

9.1 The Scheme shall not enter into Side letters.

10. Distributions of Income

10.1 The Scheme shall allocate and distribute its income in accordance with Appendix IV.

11. Exercise of Passport Rights by the Scheme

11.1 The Scheme shall inform the MFSA of its intention to market its units in another Member State and shall follow the procedure outlined in Regulation 7 of the Undertakings for Collective Investment in Transferable Securities and Management Companies Regulations, 2004 as amended. The Scheme shall also request an Attestation from the MFSA confirming amongst others that it qualifies as Maltese UCITS in terms of the said Regulations. Where the Scheme has obtained an Attestation from the MFSA, it need only request a new Attestation from the MFSA where the information on the Scheme provided in the original Attestation issued by MFSA has been subject to changes, such as a change of the management company or the creation of a new Sub-Fund.

11.2 The Scheme shall provide the competent authorities of the host Member State where it intends marketing its units, with:

i. a copy of the original Attestation; and

ii. the notification letter specified in Schedule C;

certified by the Scheme or by a third party duly empowered by the Scheme.

12. General

12.1 The Scheme's head office and registered office shall both be situated in Malta.

12.2 The Scheme shall obtain the approval of the MFSA before any of the following documents are amended:

i. Constitutional Documents;

ii. Scheme rules (if not contained in (i));

iii. any other document affecting the rights of participants in the Scheme;

iv. the latest annual report and any subsequent interim report for the Scheme;

v. the full Prospectus or similar document giving details of the Scheme;

vi. the Simplified Prospectus;

vii. a business plan submitted to the MFSA;

viii. a marketing plan submitted to the MFSA;

ix. the Management agreement and any other documents detailing the relationship between the Scheme and the persons responsible for managing the Scheme;

x. the agreement between the Scheme or the Manager and the Administrator;

xi. the agreement between the Scheme or the Manager and the Registrar;

xii. the agreement between the Scheme or the Manager and the Custodian; and

xiii. the agreement between the Scheme or the Manager and the Investment Adviser.

The Constitutional Documents shall establish the procedures for amending these documents.

12.3 The Scheme and/ or the Manager on its behalf shall comply with any applicable requirements of the External Transactions Act.

12.4 The Scheme shall be liable to the holders of Units for any loss or prejudice suffered by them resulting from its fraud, wilful default or negligence, including the unjustifiable failure to perform in whole or in part its obligations.

12.5 The Scheme or its Manager shall comply with directions given by the Custodian, being directions designed to ensure that the Scheme is properly managed and administered in accordance with the Constitutional Documents, the Licence Conditions and the most recently published full Prospectus.

12.6 The Scheme shall re-purchase or redeem its units at the request of the unit-holder. In any case:

i. the MFSA has the right to require the suspension of the repurchase/ redemption or sale/ issue of Units of the Scheme, where this is considered appropriate in the interests of unit-holders or of the public.

ii. the Scheme, or the Manager acting on its behalf, may temporarily suspend the repurchase/ redemption of its units in accordance with the procedures provided in its constitutional documents or full Prospectus. Such power may only be availed of in exceptional cases, where circumstances so require, and when suspension is justified having regard to the interests of the unit-holders.

When the Manager or the Scheme temporarily suspends the repurchase or redemption of Units it shall inform the MFSA immediately and the authorities of all Member States in which it markets its unit, in any event, within the working day

12.7 Any variation of the duties or charges by which the issue or sale price of Units is increased or by which the redemption or repurchase price of Units is decreased shall be notified to the MFSA and the Custodian. Such variation shall be published in revised full Prospectus at least 90 days before becoming effective. An increase in the duties or charges applied to the redemption or repurchase price shall be applied only to Units issued or sold after the date on which the increase takes effect.

12.8 The Scheme shall submit monthly returns and half-yearly and annual reports to the MFSA and such other information, returns and reports as the MFSA may from time to time request. The accounting information provided in the annual report shall be audited by a qualified auditor approved by the MFSA. The auditor's report, including any qualifications thereto shall be reproduced in full in the annual report. The contents of the monthly returns, and the half-yearly and annual reports, are set out in Appendices V and II respectively. The monthly returns shall be submitted within two weeks of the end of the month concerned. The half-yearly and annual reports shall be published and submitted to the MFSA within two and four months respectively of the end of the period concerned.

The Scheme shall also submit, together with its annual report, a report on its derivatives positions. The report shall include the following information – as at the year end of the Scheme – for every derivatives position of the Scheme:

i. details of the underlying risks;

ii. relevant quantitative limits and how these are monitored and enforced; and

iii. methods for estimating risks.

The MFSA may request the submission of any additional information, returns and reports for statistical purposes and the Scheme shall be bound to provide such additional information, returns and reports on the request of MFSA.

12.9 The Scheme, its Manger or Administrator on its behalf shall keep such accounting and other records as are necessary to enable it to comply with these conditions and to demonstrate that compliance has been achieved. Accounting records shall be retained for a minimum period of ten years. During the first two years they shall be kept in a place from which they can be produced within two working days of their being requested. After the first two years they shall be kept in a place from which they can be produced within five working days of their being requested.

12.10 The Scheme shall comply with all Maltese and overseas regulations to which it is subject and shall disclose the identity of the regulated entity and its regulator or regulators in all correspondence, advertisements and other documents. Wording similar to the following shall be used: *"Licensed as a Collective Investment Scheme, qualifying as a Maltese UCITS, by the Malta Financial Services*

Authority".

12.11 The Scheme shall comply with applicable laws and regulations for the prevention of money laundering.

12.12 The Scheme shall co-operate fully with any inspection or other enquiry carried out by, or on behalf of, the MFSA and inform it promptly of any relevant information. The Scheme shall supply the MFSA with such information as the MFSA may require.

12.13 When requested to do so by the MFSA, a Scheme shall submit to arbitration in respect of any dispute between itself and a holder of Units. Under such circumstances the MFSA shall be entitled to appoint an Arbitrator.

12.14 The MFSA will not be liable in damages for anything done or omitted to be done unless the act or omission is shown to have been done or omitted to be done in bad faith.

12.15 The MFSA shall be informed of any material information concerning the Scheme, its management or its operation, as soon as the Scheme becomes aware of that information. This shall include notifying the MFSA in writing of:

i. any evidence of fraud or dishonesty by an official of the Scheme immediately upon becoming aware of the matter;

ii. any actual or intended legal proceedings of a material nature by or against the Scheme; and

iii. any other material information concerning the Scheme, its business or its officials in Malta or abroad;

immediately upon becoming aware of the matter.

12.16 The financial year end of the Scheme shall be agreed with the MFSA.

12.17 The MFSA shall be advised if the value of the Scheme falls below EUR 2,500,000.

12.18 A request for a variation of a Licence shall be submitted to the MFSA in writing, giving details of the variation requested and the reasons for such request.

12.19 The Scheme shall pay promptly all amounts due to the MFSA. In particular, the Supervisory Fee shall be payable by the Scheme on the day the Licence is first issued, and thereafter annually within one week from the anniversary of that date.

12.20 The MFSA shall be notified of any breach of the Licence Conditions or of any of the provisions of the Constitutional Documents as soon as the Scheme or its Manager or Administrator becomes aware of the breach.

12.21 In the event of a winding-up of a Scheme, the prior approval of the MFSA shall be obtained for the approach to be adopted. If requested to do so by the MFSA, the Scheme and its Manager shall do all in their power to delay the winding-up of the Scheme or to proceed with the winding-up in accordance with conditions imposed by the MFSA.

12.22 The issue of bearer Units, and the terms of that issue, shall be agreed in advance with the MFSA.

12.23 Where a Scheme is not listed, the Scheme shall obtain the advance permission of the MFSA before taking any preparatory steps to seeking a listing.

12.24 The MFSA shall prohibit a Scheme subject to this Part from transforming itself into a collective investment scheme which is not so subject.

13. Assessment of the Global/ Total Exposure relating to Financial Derivative Instruments

13.1 A Scheme which qualifies as a:

i. Non Sophisticated UCITS may opt to use either the Commitment Approach or an Advanced Risk-Measurement Approach in the assessment of its global/ total exposure relating to Financial Derivative Instruments and its leverage.

ii. Sophisticated UCITS shall use an Advanced Risk-Measurement Approach in the assessment of its global/ total exposure relating to Financial Derivative Instruments and its leverage.

13.2 Where the Scheme opts to assess its global/ total exposure by means of:

i. the Commitment Approach, it shall follow the requirements included in SLC 13.4 to 13.7 below.

ii. an Advanced Risk-Measurement Approach, it shall follow with the requirements included in SLC 13.8 to 13.12 below.

13.3 The Scheme's global exposure relating to Financial Derivative Instruments should not exceed 100 per cent of its NAV such that the Scheme's total exposure does not exceed 200 per cent of its NAV on a permanent basis. The MFSA reserves the right to impose a cap to the global exposure relating to Financial Derivative Instruments below 100 per cent of NAV for a Scheme which qualifies as a Non Sophisticated UCITS.

The Commitment Approach

13.4 The Scheme or its Manager shall convert the Scheme's positions in Financial

Derivative Instruments into the equivalent positions of the underlying assets embedded in those derivatives based on the market value of the underlying assets. The aggregate value of these notional positions shall not exceed 100 per cent of NAV of the Scheme.

13.5 The commitment calculation for certain Financial Derivative Instruments may be adjusted by a probability factor that aims to reflect the probability of the Financial Derivative Instrument's commitment occurring. For options and warrants, the delta approach may be used. Where it is not possible to calculate a probability factor on a scientific and objective basis, the factor is assumed to be 1.

13.6 Where the portfolio of the Scheme includes Transferable Securities or Money Market Instruments that embed a Financial Derivative Instrument, the Scheme shall separate the embedded Financial Derivative Instrument from the host instrument and apply the Commitment Approach on such embedded Financial Derivative Instrument.

13.7 The calculation of global exposure should be presented as an absolute positive number and may be calculated after the application of the netting and hedging rules described in SLC 13.13 below. The methodology therefore does not allow for the calculation of negative commitments. Appendix VI sets out the commitment rules for a non-exhaustive list of commonly traded Financial Derivative Instruments.

Advanced Risk-Measurement Approach

13.8 The Scheme or its Manager shall use a Value at Risk ("VaR") model in order to measure the global exposure of the Scheme relating to Financial Derivative Instruments. The MFSA needs to be satisfied with the VaR model utilised by the Scheme or its Manager.

The Scheme may utilise other models provided that the MFSA is satisfied as to the appropriateness of such other models.

13.9 The VaR model to be adopted by the Scheme or its Manager for the purposes of assessing the Scheme's global exposure relating to Financial Derivative Instruments shall be based on the following parameters:

i. a confidence level of 99 per cent;

ii. a holding period of seven days; and

iii. a historical observation period of not less than 1 year.

The MFSA may allow the Scheme or its Manager to use a shorter observation period. The MFSA may also allow, in exceptional circumstances, the Scheme or its Manager to deviate from the parameters listed above.

13.10 The Scheme or its Manager should also use stress tests in order to measure any potential major depreciation of the Scheme's value as a result of unexpected changes in the relative value parameters. Stress tests should be carried out at least once a quarter and the results appropriately documented. Relevant records in this regard should be held in Malta at the registered office of the Scheme.

13.11 The Scheme or its Manager should keep under review the appropriateness of the VaR model. In this regard, the Scheme or its Manager shall assess on a regular basis the quality of the VaR model forecasts by means of a comparison between the potential market risk amount calculated by the model and the actual change in the value of the portfolio (back-testing). If the latter exceeds the former on more occasions than should be envisaged using the stated confidence interval, the Scheme or its Manager shall take appropriate action immediately. The frequency of such back-testing should be appropriate to the risk profile of the Scheme.

13.12 The Scheme shall calculate its total exposure on the basis of the Relative VaR or the Absolute VaR as indicated hereunder:

i. *Relative VaR:* the VaR on the Scheme's portfolio should be divided by the VaR of a benchmark or reference portfolio (i.e. a similar portfolio with no Financial Derivative Instruments) in the form of an actual benchmark portfolio (such as an index) or a fictitious benchmark portfolio.

The Scheme's global exposure limit relating to derivative instruments of 100 per cent of NAV is represented by the VaR on the comparable benchmark portfolio. The Scheme's total exposure limit of 200 per cent of NAV is represented by twice the VaR on the comparable benchmark portfolio.

The VaR on the Scheme portfolio shall accordingly not exceed twice the VaR on the comparable benchmark portfolio.

ii. *Absolute VaR:* the VaR on the Scheme's portfolio capped as a percentage of NAV. The Scheme's total exposure limit of 200 per cent of NAV is represented by a VaR on the Scheme's portfolio of 5 per cent of the NAV of the Scheme. The VaR on the Scheme portfolio shall accordingly not exceed 5 per cent of the NAV of the Scheme.

The Scheme or its Manager shall inform the MFSA as to the VaR limit to be adopted by the Scheme in the assessment of its total exposure (i.e. Absolute VaR vs Relative VaR). The VaR limit previously agreed with the MFSA may only be changed with the prior approval of the MFSA.

Position Netting and Hedging Requirements

13.13 In calculating the Scheme's global exposure, the Scheme's derivative positions and security positions may be netted provided that:

i. the Financial Derivative Instrument relates to the same underlying as the reference asset, rate or index and exhibits a high negative correlation; and/or

ii. the overall risk profile of the Scheme is reduced by the hedging transaction.

14. Supplementary Conditions for Schemes established as Limited Partnerships

14.1 The Scheme shall obtain the written consent of the MFSA before admitting a General Partner. The request for consent shall reach the MFSA at least twenty one business days prior to the proposed date of admittance and shall be accompanied by a Personal Questionnaire in the form set out in Schedule E to Part A of these Rules duly completed by the person proposed (in the case of an individual) or by the Directors and Qualifying Shareholders of the proposed Corporate General Partner. The MFSA reserves the right to object to the proposed General Partner and to require such additional information it considers appropriate.

Provided that where the proposed corporate General Partner is regulated in a Recognized Jurisdiction, the request for consent need not be accompanied by the Personal Questionnaire of the Directors and Qualifying Shareholders of the proposed corporate General Partner, but shall include details of the regulatory status of the General Partner. Nevertheless, the MFSA reserves the right to require submission of the Personal Questionnaires of the Directors and Qualifying Shareholders of the proposed corporate General Partner where considered appropriate.

14.2 General Partners shall be persons falling within any one of the following categories:

i. a company licensed under the Investment Services Act, 1994, for the provision of fund management services; or

ii. a company falling within the exemptions applicable to overseas fund managers; or

iii. any other entity of sufficient standing and repute as approved by the MFSA; or

iv. any other person who satisfies the fit and proper test.

Where the General Partner falls under (iii) and (iv) above, and in the absence of a Manager (as per (i) or (ii)) acting as an additional General Partner, the Scheme shall appoint a Manager acceptable to the MFSA.

14.3 The Scheme shall notify the MFSA in writing of the departure of a General Partner within 14 days of the departure. The Scheme shall also request the General Partner to confirm to MFSA that his departure had no regulatory implications or to provide

relevant details, as appropriate. A copy of such request shall be provided to MFSA together with the Scheme's notification of departure.

14.4 The Scheme shall organise and control its affairs in a responsible manner and shall have adequate operational, administrative and financial procedures and controls to ensure compliance with all regulatory requirements.

14.5 The MFSA shall be entitled to be satisfied, on a continuing basis, of the fitness and properness of the General Partner(s) and of any party appointed by the Scheme.

14.6 Where applicable, the Scheme, or the Manager or Administrator on behalf of the Scheme, is required to disclose to potential investors, the identity of the beneficial owners of the General Partner(s) upon request.

15. Supplementary Conditions for Schemes established as Investment Companies

15.1 The MFSA shall be entitled to be satisfied, on a continuing basis, of the fitness and properness of the Directors of the Scheme.

15.2 The Scheme shall at all times have one or more Directors independent from the Manager and the Custodian.

15.3 The Scheme shall obtain the written consent of the MFSA before the appointment of a Director. The request for consent of the appointment or replacement of a Director shall reach the MFSA at least twenty one business days prior to the proposed date of appointment. The Scheme shall not appoint a Corporate Director unless such Corporate Director is regulated in a recognized jurisdiction.

15.4 The request for consent of the appointment or replacement of an individual as Director shall be accompanied by a Personal Questionnaire in the form set out in Schedule E to Part A of these Rules duly completed by the person proposed. In the case of a Corporate Director, the request for consent shall include details of its regulatory status. The MFSA reserves the right to object to the proposed appointment or replacement and to require such additional information it considers appropriate.

15.5 The Scheme shall notify the MFSA in writing of the departure of a Director within 14 days of the departure. The Scheme shall also request the Director to confirm to MFSA that his departure had no regulatory implications or to provide relevant details, as appropriate. A copy of such request shall be provided to MFSA together with the Scheme's notification of departure.

15.6 Minutes of the meetings of the Board of Directors shall be held in Malta at the registered office of the Scheme or at any other place as may be agreed with the MFSA.

15.7 The Scheme shall act honestly, fairly and with integrity – in the best interests of its

investors/shareholders and of the market. Such action shall include:

i. avoiding conflicts of interest where this is possible and, where it is not, ensuring – by way of disclosure, internal procedures or otherwise – that investors are treated fairly. The following procedures should be followed during Board Meetings, where a member considers that he/ she has or may have a conflict of interest:

   a. that person should declare that interest to the other members either at the Meeting at which the issue in relation to which he/ she has an interest first arises, or if the member was not at the date of the Meeting interested in the issue, at the next Meeting held after he/ she became so interested;

   b. unless otherwise agreed to by the other members, a member shall avoid entering into discussions in respect of any contract or arrangement in which he/ she is interested and should withdraw from the meeting while the matter in which he/ she has an interest is being discussed;

   c. the interested member should not vote at a Meeting in respect of any contract or arrangement in which he/ she is interested, and if he/ she shall do so, his/her vote shall not be counted in the quorum present at the Meeting; and

   d. the minutes of the meeting should accurately record the sequence of such events;

ii. abiding by all relevant laws and regulations, including in respect of Prevention of Money Laundering;

iii. avoiding any claim of independence or impartiality which is untrue or misleading; and

iv. avoiding making misleading or deceptive representations to investors.

16. Supplementary Conditions for Self-Managed Schemes

16.1 The Scheme and the Custodian shall be separate persons independent of each other. They shall act independently and solely in the interests of the Unit holders. A majority of the directors of the Scheme shall be independent of the Custodian. Since independence may be compromised in a variety of ways, any facts, relationships, arrangements, or circumstances which may at any stage bring that independence into question shall be declared to the MFSA as soon as the Scheme becomes aware of any such matter.

Capital Requirements

16.2 The Scheme shall be operated in or from Malta, as agreed with the MFSA. It shall have sufficient financial resources at its disposal to enable it to conduct its business effectively, to meet its liabilities and to be prepared to cope with the risks to which it is exposed. The Scheme shall have a minimum initial capital of EUR 300,000, or the equivalent in any other currency and the NAV of the Scheme is expected to exceed this amount on an on-going basis. The Scheme should notify the MFSA as soon as its NAV falls below EUR 300,000. The Scheme shall be required to comply with such financial resources and record-keeping requirements as may be laid out by MFSA.

Operational Arrangements

16.3 The Scheme shall organise and control its affairs in a responsible manner and shall have adequate operational, administrative and financial procedures and controls to ensure compliance with all regulatory requirements and shall provide the MFSA with all the information it may require from time to time. The Scheme shall be required to observe the relevant requirements in Part B of the Investment Services Rules for Investment Services Providers which are set out to ensure that it:

i. acts honestly and fairly in conducting its business activities in the best interests of Unit holders and the integrity of the market;

ii. acts with due skill, care and diligence, in the best interests of Unit holders and the integrity of the market;

iii. has and employs effectively the resources and procedures that are necessary for the proper performance of its activities;

iv. tries to avoid conflicts of interests and, when they cannot be avoided, ensures that Unit holders are fairly treated, and

v. complies with all regulatory requirements applicable to the conduct of its business activities so as to promote the best interests of its Unit holders and the integrity of the market.

Any reference in the Investment Services Rules for Investment Services Providers to "Licence Holders" shall be construed as reference to "the Scheme".

16.4 The Scheme shall comply with the requirements which ordinarily apply to Managers wishing to delegate one or more of their functions to third parties. Accordingly, in such circumstances SLC 2.5 shall apply to the Scheme. Moreover, the Scheme shall only manage assets of its own portfolio and may not, under any circumstances, receive any mandate to manage assets on behalf of a third party.

16.5 The management of the assets of the Scheme is to be the responsibility of the Board of Directors, at least one of whom shall be resident in Malta. Unless otherwise agreed with the MFSA, the Board of Directors of the Scheme shall

establish an in-house Investment Committee made up of at least three members, whose composition may include Board members. The Terms of Reference of this Investment Committee – which regulate the proceedings of the Investment Committee – and any changes thereto, is subject to the prior approval of the MFSA. The majority of Investment Committee meetings – the required frequency of which should depend on the nature of the Scheme's investment policy, but which should be at least quarterly – are to be physically held in Malta. Investment Committee meetings are deemed to be physically held in Malta if the minimum number of members that form a quorum necessary for a meeting are physically present in Malta.

16.6 Minutes of the Investment Committee meetings should be available in Malta for review during MFSA's compliance visits. The role of the Investment Committee will be to:

i. monitor and review the investment policy of the Scheme;

ii. establish and review guidelines for investments by the Scheme;

iii. issue rules for stock selection;

iv. set up the portfolio structure and asset allocation; and

v. make recommendations to the Board of Directors of the Scheme.

16.7 Where the Scheme has not appointed an Investment Committee, the functions mentioned under SLC 16.6 above shall be undertaken by the Directors of the Scheme and any reference to Investment Committee throughout this Section shall be construed as reference to the Board of Directors of the Scheme.

16.8 The Investment Committee may delegate the day-to-day investment management of the assets of the Scheme to at least two officials of the Scheme (referred to as "the Portfolio Managers") – who will effect day-to-day transactions within the investment guidelines set by the Investment Committee and in accordance with the investment objectives, policy and restrictions described in the Scheme's full Prospectus. The Scheme may also delegate the day to day investment management of its assets to a third party Manager acceptable to the MFSA. In this case reference to "Portfolio Manager" throughout this Section shall be construed as a reference to the third party Manager appointed by the Scheme.

16.9 The Scheme shall obtain the written consent of the MFSA before the appointment or replacement of a member of the Investment Committee or a Portfolio Manager. The request for consent of the appointment or replacement of a member of the Investment Committee or a Portfolio Manager, where applicable, shall reach the MFSA at least twenty one business days prior to the proposed date of appointment. The MFSA reserves the right to object to the proposed replacement or appointment and to require such additional information it considers appropriate. The MFSA

shall be entitled to be satisfied, on a continuing basis, of the fitness and properness, including competence, of the members of the Investment Committee and of the Portfolio Managers.

The request for consent of the appointment or replacement of a member of the Investment Committee or a Portfolio Manager shall be accompanied by a Personal Questionnaire in the form set out in Schedule E to Part A of these Rules and a detailed CV of the person proposed.

16.10 The Scheme shall notify the MFSA in writing of the departure of a Member of the Investment Committee and/ or a Portfolio Manager within 14 days of the departure. The Scheme shall also request the Investment Committee and/ or the Portfolio Manager, as applicable, to confirm that his/ her departure has no regulatory implications or otherwise provide any relevant details, as appropriate. A copy of such request shall be provided to MFSA.

16.11 The Scheme shall have adequate arrangements, in agreement with and subject to the approval of the MFSA, to ensure adequate monitoring of the activities of the Portfolio Managers and the Investment Committee.

16.12 The Scheme shall on a continuing basis ensure that it has sufficient management resources to effectively conduct its business.

Documents and Records

16.13 The Scheme shall keep such accounting and other records, in particular regarding the whole process of the investment management function and its monitoring thereof, as are necessary to enable it to comply with the Licence Conditions and to demonstrate that compliance has been achieved. Records are to be retained in Malta and made available to MFSA's review as the need arises. Records shall be retained for a minimum period of ten years. During the first two years they shall be kept in a place from which they can be produced within two working days of their being requested. After the first two years they shall be kept in a place from which they can be produced within five working days of their being requested.

Auditor

16.14 In respect of each annual accounting period, the Scheme shall require its auditor to prepare a management letter in accordance with International Standards on Auditing.

17. Supplementary Conditions for Schemes established as Umbrella Funds

17.1 Where the Scheme is set up as an Umbrella Fund, in addition to the approval being obtained for the Scheme, each Sub-Fund shall be approved by the MFSA, following the submission of an application form and supporting documentation.

17.2 Each Sub-Fund shall comply with the laws and regulations governing UCITS Schemes.

17.3 A Sub-Fund shall not invest in another Sub-Fund of that same scheme.

17.4 A meeting of the holders of Units in any one Sub-Fund may approve a modification of the constitutional documents or any policy statement only if the provisions to be modified relate only to that Sub-Fund.

18. Supplementary Conditions for Schemes established as Fund of Funds

18.1 The underlying schemes shall meet the criteria specified in SLC 5.1(v).

18.2 The underlying schemes shall fall within the objectives and investment policy as set out in the Prospectus.

18.3 Price quotation and sale and repurchase arrangements for Units in the Scheme shall ensure that:

i. a purchaser is able to purchase Units at a price based on the most recent underlying scheme price or prices;

ii. the issuing of the Units and the remitting of the purchase proceeds to the underlying scheme or schemes is achieved as soon as is practicable;

iii. a seller is able to sell Units at a price based on the most recent underlying scheme price or prices;

iv. the cancellation (if appropriate) of the Units and the remitting of the proceeds to the seller are achieved as soon as is practicable.

18.4 The Scheme shall, as far as practicable, be valued with the same frequency as the underlying schemes.

18.5 The Scheme shall not invest in a Feeder Fund nor in a Fund of Funds.

18.6 Such information as is required by the MFSA concerning each underlying scheme shall be made available to the MFSA on request.

PART B: STANDARD LICENCE CONDITIONS

Appendix I
Contents of the Prospectus

This Appendix includes the minimum information to be included in the Prospectus of a Scheme.

Annex I includes the information to be included in the full Prospectus of a Scheme which qualifies as an open ended Maltese Non UCITS Scheme.

Annex II includes the information to be included in the full Prospectus of a Scheme which qualifies as Maltese UCITS Scheme.

Annex III includes the information to be included in the full Prospectus of a Scheme which qualifies as a closed ended Maltese Non UCITS Scheme.

Annex IV includes the information to be included in the Simplified Prospectus of a Scheme which qualifies as a Maltese UCITS or Non UCITS Scheme.

Annex I
Contents of the Prospectus – Open Ended Maltese Non UCITS Schemes

1.0 Information concerning a Scheme set up as a Unit Trust or Common Contractual Fund

1.1 Name of the Scheme.

1.2 Date of establishment of the Scheme and a statement as to its duration, if limited.

1.3 A statement of the duration of the Scheme, if limited.

1.4 In the case of Umbrella Funds, an indication of the Sub-Funds.

1.5 Statement of the place where the Trust Deed or Fund Rules, if it is not annexed, and periodic reports may be obtained.

1.6 Brief indications relevant to holders of Units of the tax provisions applicable to the Scheme, including details of whether deductions are made at source from the income and capital gains paid by the Scheme to holders of Units.

1.7 Accounting and distribution dates.

1.8 Name of auditor.

1.9 Details of the types and main characteristics of the Units and in particular:

i. the nature of the right represented by the Unit;

ii. whether certificates providing evidence of title will be issued, or whether there will be an entry in a register or in an account;

iii. characteristics of the Units: an indication of any denominations which may be provided for;

iv. indication of the voting rights of the holders of Units, if such rights exist; and

v. circumstances in which winding-up of the Scheme can be decided upon and the winding-up procedures, in particular as regards the rights of holders of Units.

1.10 Where applicable, details of the Regulated Market where the Units are listed or dealt in.

1.11 Procedures and conditions for the creation, issue and sale of Units.

1.12 Procedures and conditions for the repurchase, redemption and cancellation of Units, and details of the circumstances in which repurchase or redemption may be

suspended.

1.13 Description of the rules for determining and applying income.

1.14 Description of the Scheme's investment objectives, including its financial objectives (e.g. capital growth or income), investment policy (e.g. specialisation in geographical or industrial sectors), any limitations on that investment policy, and an indication of any techniques and instruments which may be used for the purposes of efficient portfolio management, and of any borrowing powers which may be used in the management of the Scheme.

1.15 Rules for the valuation of assets.

1.16 Method to be used for the determination of the creation, sale and issue prices and the repurchase, redemption and cancellation prices of Units, in particular:

i. the method and frequency of the calculation of those prices; this should preferably be on each business day, but in all cases, at least twice each month;

ii. details of the means, places and frequency of the publication of prices; should be preferably on each business day, but in all cases, at least twice each month

iii. information concerning the charges relating to the sale or issue and the repurchase or redemption of Units; and

iv. arrangements whereby holders of Units and prospective holders of Units may deal.

1.17 In the case of a Scheme set up as an Umbrella Fund the charges applicable to the switching of investments from one Sub-Fund to another.

1.18 Information concerning the nature, amount and the basis of calculation in respect of remuneration payable by the Scheme to the Manager, Administrator, Custodian, Investment Adviser and to third parties, and in respect of the reimbursement of costs by the Scheme to these persons.

1.19 Information concerning any applicable exchange control regulations as they affect the Unit holders and the Scheme.

2.0 Information concerning a Scheme set up as an Investment Company or Limited Partnership

2.1 Name of the Scheme.

2.2 Form in law, registered office and head office if different from the registered office.

2.3 Date of registration or incorporation of the Scheme.

2.4 A statement of the duration of the Scheme, if limited.

2.5 In the case of Umbrella Funds an indication of the Sub-Funds.

2.6 Statement of the place where the Memorandum and Articles of Association or the Deed of Partnership of the Scheme, if they are not annexed, and periodic reports may be obtained.

2.7 Brief indications relevant to holders of Units of the tax provisions applicable to the Scheme, including details of whether deductions are made at source from the income and capital gains paid by the Scheme to holders of Units.

2.8 Accounting and distribution dates.

2.9 Name of auditor.

2.10 Details of the types and main characteristics of the Units and in particular:

i. whether securities or certificates providing evidence of title will be issued, or whether there will be an entry in a register or in an account;

ii. characteristics of the Units: an indication of any denominations which may be provided for;

iii. indication of the voting rights of the holders of Units, if such rights exist;

iv. circumstances in which winding-up of the investment company can be decided upon and the winding-up procedures, in particular as regards the rights of holders of Units.

2.11 Where applicable, details of the Regulated Market where the Units are listed or dealt in.

2.12 Procedures and conditions for the creation, issue and sale of Units.

2.13 Procedures and conditions for the repurchase, redemption and cancellation of Units, and details of the circumstances in which repurchase or redemption may be suspended.

2.14 Description of the rules for determining and applying income.

2.15 Description of the Scheme's investment objectives, including its financial objectives (e.g. capital growth or income), investment policy (e.g. specialisation in geographical or industrial sectors), any limitations on that investment policy, and an indication of any techniques and instruments which may be used for the purposes of efficient portfolio management, and of any borrowing powers which may be used in the

management of the Scheme.

2.16 Rules for the valuation of assets.

2.17 Method to be used for the determination of the creation, sale and issue prices and the repurchase, redemption and cancellation prices of Units, in particular:

i. the method and frequency of the calculation of those prices; this should preferably be on each business day, but in all cases, at least twice each month;

ii. the means, places and frequency of the publication of those prices; this should preferably be on each business day, but in all cases, at least twice each month;

iii. information concerning the charges relating to the sale or issue and the repurchase or redemption of Units; and

iv. arrangements whereby holders of Units and prospective holders of Units may deal.

2.18 In the case of a Scheme set up as an Umbrella Fund the charges applicable to the switching of investments from one Sub-Fund to another.

2.19 Information concerning the nature, amount and the basis of calculation in respect of remuneration payable by the Scheme to the Manager, Administrator, Custodian, Investment Adviser and to third parties, and in respect of the reimbursement of costs by the Scheme to these persons.

2.20 Names and positions in the Scheme of those responsible for its administrative, management and supervisory functions; their experience, both current and past, which is relevant to the Scheme; details of their main activities outside the Scheme where these are of significance.

2.21 Amounts of authorised capital.

2.22 Information concerning any applicable exchange control regulations as they affect the Unit holders and the Scheme.

3.0 Information concerning the Manager

3.1 Name of the Manager.

3.2 Form in law, registered office and head office if different from the registered office. If the Manager is part of a group, the name of that group and the ultimate parent. Date of registration or incorporation of the Manager, and an indication of its duration if limited.

3.3 Material provisions of the contract between the Scheme and the Manager which may

be relevant to the holders of Units.

3.4 If the Manager manages other Collective Investment Schemes, information on those other schemes.

3.5 Names and positions in the Manager of those responsible for its administrative, management and supervisory functions. Their experience, both current and past, which is relevant to the Scheme. Details of their main activities outside the Manager where these are of significance.

3.6 Amounts of authorised and paid-up capital.

4.0 Information concerning a Custodian

4.1 Name of the Custodian.

4.2 Form in law, registered office, and head office if different from the registered office.

4.3 Material provisions of the contract between the Scheme and the Custodian which may be relevant to the holders of Units.

4.4 Main activity.

5.0 Information concerning an Investment Adviser

5.1 Name of the Investment Adviser.

5.2 Form in law, registered office, and head office if different from the registered office.

5.3 Material provisions of the contract between the Investment Adviser and the Manager or the Scheme which may be relevant to the holders of Units.

5.4 Main Activity.

6.0 Information concerning an Administrator

6.1 Name of the Administrator.

6.2 Form in law, registered office, and head office if different from the registered office.

6.3 Material provisions of the contract between the Administrator and the Manager or the Scheme which may be relevant to the holders of Units.

6.4 Main Activity.

7.0 Information concerning Legal Adviser

7.1 Name of the Legal Adviser.

7.2 Registered office, and head office if different from the registered office.

7.3 Main Activity.

8.0 Additional information regarding Umbrella Funds

8.1 The Prospectus shall state that the Scheme as a whole is constituted as an Umbrella Fund and name the Sub-Funds.

8.2 The charges, if any, applicable to the exchange of units in one Sub-Fund for Units in another.

8.3 The Prospectus shall state the procedures and basis of valuation (including in respect of any foreign exchange conversion) to be applied to the exchange of Units in one Sub-Fund for Units in another.

8.4 The Prospectus shall state the basis of apportioning charges, expenses, liabilities and amounts received (which are not clearly attributable to only one fund) between Sub-Funds. This basis should be fair to the holders of Units in each Sub-Fund.

8.5 If applicable, the Prospectus shall state that, although each Sub-Fund will bear its own liabilities, the Scheme as a whole will remain liable to third parties for all its liabilities (unless the Sub-Funds are being set up as separate patrimonies).

8.6 If an underlying scheme is denominated in a currency other than that in which the Scheme itself is denominated, the Scheme's Prospectus shall explain the risks involved and, if appropriate, the techniques which may be used to reduce this risk. These techniques shall be agreed in advance with the MFSA.

9.0 Additional information regarding Funds of Funds

9.1 The Prospectus shall accurately reflect the characteristics of the underlying scheme or schemes. Where appropriate, holders of Units in the Scheme shall be given the opportunity to receive copies of the Prospectus for each underlying scheme.

9.2 The Prospectus shall give details of all fees, charges, taxes, commissions and other costs to be borne directly or indirectly by the Scheme and, where appropriate, by each underlying scheme.

10.0 General Information

10.1 A statement to the effect that the authorisation of the Scheme by the MFSA does not constitute a warranty by the MFSA as to the performance of the Scheme and the MFSA shall not be liable for the performance or default of the Scheme.

10.2 A description of the potential conflicts of interest which could arise between the Manager, Investment Adviser or Custodian and the Scheme.

10.3 The name of any entity which has been contracted by the Manager to carry out its work.

10.4 Material provisions of any contracts between third parties and the Manager or the Scheme which may be relevant to Unit holders, including those relating to remuneration.

10.5 Information concerning the arrangements for making payments to holders of Units, purchasing or redeeming Units and making available information concerning the Scheme.

Annex II
Contents of the Prospectus – Maltese UCITS Schemes

1.0 General Requirement

1.1 The Prospectus of the Scheme shall include all the relevant information listed in Annex I of this Appendix.

2.0 Information concerning the Scheme

2.1 A prominent statement drawing attention to the investment policy where the Scheme invests principally in any category of assets defined in SLC 4.1 of Part B II of these Rules other than Transferable Securities and Money Market Instruments or replicates a stock or debt securities index in accordance with SLC 5.37 of Part B II of these Rules.

2.2 Indication of the categories of assets the Scheme is authorised to invest in. The Prospectus shall mention if transactions in Financial Derivative Instruments are authorised; in this event, it must include a prominent statement indicating if these operations may be carried out for the purpose of hedging or with the aim of meeting the investment objectives, and the possible outcome of the use of Financial Derivative Instruments on the risk profile of the Scheme.

2.3 When the Net Asset Value of the Scheme is likely to have a high volatility due to the Scheme's portfolio composition or the portfolio management techniques that may be used, the Prospectus (and, where necessary, any other promotional literature) shall include a prominent statement drawing attention to this characteristic

2.4 Where the Scheme invests a substantial proportion of its assets in other schemes, the Prospectus shall disclose the maximum level of the management fees that may be charged to both the Scheme itself and to the other schemes in which it intends to invest.

2.5 Where a Scheme is authorised to invest up to 100% of its assets in different Transferable Securities and Money Market Instruments issued or guaranteed by any Member State, its local authorities, a non-member state or public international bodies of which one or more Member States are members, a prominent statement drawing attention to such authorisation and indicating the States, local authorities and/or public international bodies in the securities of which it intends to invest or has invested more than 35% of its assets.

3.0 Information concerning the Manager

3.1 A list of the functions which the Manager has been permitted to delegate.

4.0 Investment Information

4.1 Historical performance of the Scheme (where applicable) – such information may be either included in or attached to the Prospectus (please refer to para. 2.4 of Annex IV to this Appendix).

4.2 Profile of the typical investor for whom the Scheme is designed.

5.0 Economic Information

5.1 Possible expenses or fees, other than the charges mentioned Annex I above, distinguishing between those to be paid by the holder of the Unit and those to be paid out of the Scheme's assets.

5.2 Details (where applicable) of Fee-Sharing Agreements and/ or Soft Commissions which should allow an investor to understand to whom expenses are to be paid and how possible conflicts of interest will be resolved in his/ her best interest.

6.0 Additional Information

6.1 The Constitutional Documents need not be annexed to the full Prospectus provided that the Unit holder is informed that on request he or she will be provided with these documents or be informed of the place where, he/ she may consult them.

Annex III
Contents of the Prospectus – Closed-Ended Maltese Non UCITS Schemes

1.0 General Requirements

1.1 Where the information being requested is inappropriate to the nature of the Scheme or its legal form, the full Prospectus shall contain, where possible, information equivalent to the required information.

1.2 The Scheme may draw up the full Prospectus as a single document or separate documents. A full Prospectus composed of separate documents must divide the required information into a Registration Document, a Securities Note and a Summary Note. The Registration Document must contain the information relating to the Scheme. The Securities Note must contain the information concerning the units offered to the public.

1.3 The full Prospectus shall be valid for 12 months after its publication for offers to the public, provided that the full Prospectus is completed, if applicable, by any Supplements referred to under SLC 5.7 of Part B I of these Rules.

1.4 The Registration Document shall be valid for a period of up to 12 months. In the case of a listed Scheme, the full Prospectus must be updated with any information that the Scheme was required to disclose (in terms of the rules of the relevant rules of the regulated market) to the public over the preceding 12 months.

The Registration Document accompanied by the Securities Note, updated if applicable in accordance with para. 1.5 below, and the Summary Note, shall be considered as constituting a valid full Prospectus.

1.5 Where the Scheme has a Registration Document approved by the MFSA, it shall only draw up the Securities Note and the Summary Note when units are offered to the public or admitted to trading on a regulated market. In this case, the Securities Note shall provide information that would normally be provided in the Registration Document if there has been a material change or recent development which could affect investors' assessments since the latest updated Registration Document or any supplement referred to in SLC 5.7 of Part B I of these Rules. The Securities and Summary Notes shall be subject to a separate approval. Where the Scheme has only filed a Registration Document without approval, the entire documentation, including updated information, shall be subject to approval.

1.6 The full Prospectus of the Scheme shall include a summary. The summary must, in a brief manner and in non technical language, convey the essential characteristics and risks associated with investing in the Scheme. It must also convey the essential characteristics and risks associated with any guarantor and the Scheme. The summary shall also contain a warning that:

i. it should be read as an introduction to the full Prospectus;

ii. any decision to invest in the units of the Scheme should be based on consideration of the full Prospectus as a whole by the investor;

iii. where a claim relating to the information contained in the full Prospectus is brought before a court, the plaintiff investor might have to bear the costs of translating the full Prospectus before the legal proceedings are initiated; and

iv. civil liability attaches to those persons who have tabled the summary including any translation thereof, and applied for its notification, but only if the summary is misleading, inaccurate or inconsistent when read together with the other parts of the full Prospectus.

1.7 Information may be incorporated in the full Prospectus by reference to one or more previously or simultaneously published documents that have been approved by the MFSA. When information is incorporated by reference, a cross reference list must be provided in order to enable investors to easily identify specific items of information. The summary shall not incorporate information by reference.

1.8 In the case of a full Prospectus comprising several documents and/or incorporating information by reference, the documents and information making up the full Prospectus may be published and circulated separately provided that the said documents are made available, free of charge, to the public. Each document shall indicate where the other constituent documents of the full Prospectus may be obtained.

1.9 Where the Scheme makes an offer to the public in Malta, the full Prospectus shall be drawn up in English or Maltese.

1.10 Where an offer to the public is made or admission to trading on a regulated market is sought in one or more EU Member or EEA States (excluding Malta), the full Prospectus of the Scheme shall be drawn up either in a language accepted by the competent authorities of those States or in a language customary in the sphere of international finance, at the choice of the Scheme.

1.11 Where an offer to the public is made or admission to trading on a regulated market is sought in more than one Member State (including Malta), the full Prospectus shall be drawn up in English or Maltese and shall also be made available either in a language accepted by the competent authorities of each host Member State or in a language customary in the sphere of international finance, at the choice of the Scheme.

1.12 The full Prospectus must be drawn in compliance with the requirements outlined below together with the requirements listed in the Commission Regulation (EC) No 809/ 2004 of 29th April, 2004 implementing Directive 2003/71/EC of the European Parliament and of the Council on the full Prospectus to be published when securities are offered to the public or admitted to trading.

2.0 Contents of the full Prospectus

2.1 The full Prospectus of the Scheme may be drawn up as:

i. a combination of the following documents:

a. a Share Registration Document;

b. a Securities Note; and

c. a Summary Note; or

ii. a Single Document.

2.2 The full Prospectus must clearly indicate both the offer price as well as the number of units to be issued. It must also include a declaration by the Directors of the Scheme, or its administrative management body (whose names and functions or in the case of legal persons, their names and registered offices appear on the full Prospectus), to the effect that to the best of their knowledge, the information contained therein is in accordance with facts and the full Prospectus makes no omission likely to affect its import.

2.3 The MFSA may exempt a Scheme, on a case by case basis, from disclosing certain information required to be disclosed in terms of Directive 2003/71/EC or Commission Regulation (EC) No 809/ 2004 of 29th April, 2004, which is not considered relevant for the purposes of the Scheme. In arriving at its decision to exempt the Scheme from disclosing any information included in Directive 2003/71/EC or the Regulation, the MFSA shall consider whether:

i. disclosure of such information would be contrary to the public interest; or

ii. disclosure of such information would be seriously detrimental to the Scheme, provided that the omission would not be likely to mislead the public with regard to facts and circumstances essential for an informed assessment of the Scheme and of the rights attached to the units of the Scheme to which the full Prospectus relates; or

iii. such information is of minor importance only for a specific offer and is not such as will influence the assessment of the financial position and prospects of the Scheme.

3.0 Full Prospectus as a combination of documents

3.1 When the full Prospectus is drawn up in separate documents:

i. the contents of the Share Registration Document shall be drawn in accordance with the provisions of Part II of Part A of the Second Schedule of the

Companies Act, 1995

ii. the contents of the Securities Note shall be drawn in accordance with the provisions of Part III of Part A of the Second Schedule of the Companies Act, 1995; and

iii. the contents of the Summary Note shall be drawn in accordance with the provisions of Part IV of Part A of the Second Schedule of the Companies Act, 1995.

4.0 Full Prospectus as a single documents

4.1 When the Prospectus is drawn up as a single document, it shall be drawn in compliance with the provisions of Part I of Part A of the Second Schedule of the Companies Act, 1995.

Annex IV
Contents of the Simplified Prospectus

Important Note – Particular attention is required to ensure that the information included in the Simplified Prospectus is easily comprehensible by the average retail investor.

1.0 Brief presentation of the Scheme

1.1 When the Scheme was created and reference to its place of registration/ incorporation.

1.2 Where applicable, reference to the Scheme being an Umbrella Fund.

1.3 Details of the Manager appointed by the Scheme (when applicable).

1.4 Expected period of existence of the Scheme (if of limited duration).

1.5 Details of the Custodian.

1.6 Details of the Scheme's auditors.

1.7 Details of the financial group (e.g. a bank) promoting the Scheme.

2.0 Investment information

2.1 Short description of the Scheme's investment objectives, which should include:

i. a concise and appropriate description of the outcomes sought for any investment in the Scheme;

ii. a clear statement of any guarantees offered by third parties to protect investors and any restrictions on those guarantees;

iii. a statement where relevant, that the Scheme is intended to track an index / indices, and sufficient indications to enable investors both to identify the relevant index and to understand the extent or degree of tracking pursued.

2.2 Description of the Scheme's investment policy and particular characteristics (including, if applicable, the information listed in paras. 2.1 to 2.3 of Annex II). For this purpose, the following information should be included, provided it is material and relevant:

i. the main categories of eligible financial instruments which are the object of the investment;

ii. whether the Scheme has a particular strategy in relation to any industrial,

geographic or other market sectors or specific classes of assets, e.g. investments in emerging countries' financial instruments;

iii. where relevant, a warning that, whilst the actual portfolio composition is set to comply with the broad legal and statutory rules and limits, risk-concentration may occur in regard of certain tighter asset classes, economic and geographic sectors;

iv. if the Scheme invests in bonds, an indication of whether they are corporate or government, their duration and the rating requirements;

v. whether the Scheme employs an active or passive investment management style; and

vi. whether the Scheme's management style contemplates some reference to a benchmark; and in particular whether the Scheme has an 'index tracking' objective with an indication of the strategy to be pursued to achieve this.

2.3 A brief assessment of the Scheme's risk profile. For this purpose, there shall be included:

i. a statement to the effect that the value of investments may fall as well as rise, and that investors may get back less than they originally invested;

ii. a statement that details of all the risks actually mentioned in the Simplified Prospectus may be found in the full prospectus;

iii. a textual description of any risk investors have to face in relation to their investment, but only where such risk is relevant and material. The materiality of risks is assessed on the basis of risk impact and probability. The description should include a brief explanation of any specific risk arising from particular investment policies or strategies or associated with specific markets or assets relevant to the Scheme and may comprise market risk, credit risk, settlement and/ or custody risk (particularly relevant in emerging markets), liquidity risk, exchange rate or currency risk, inflation risk and risks related to the concentration of assets or markets;

The description should also include, where relevant and material, the following factors that may affect the Scheme:

a. performance risk, including the variability of risk levels depending on individual fund selections, and the existence, absence of, or restrictions on any guarantees given by third parties;

b. risks to capital, including potential risk of erosion resulting from withdrawals/cancellations of units and distributions in excess of investment returns;

c. exposure to the performance of the provider/third-party guarantor, where investment in the product involves direct investment in the provider, rather than assets held by the provider;

d. inflexibility, both within the product (including early surrender risk) and constraints on switching to other providers;

e. lack of certainty that environmental factors, such as a tax regime, will persist.

The presentation of the above-mentioned risks should be prioritized, based on scale and materiality, so as to better highlight the individual risk profile of the Scheme.

Schemes which have been set up for at least one year, must also include, on a per Sub-Fund basis, the standard deviation of the Sub-Fund's NAV over the period – as a measure of volatility of the fund's portfolio. The Scheme's standard deviation should represent the dispersion of the SubFund's returns. The Scheme's return should be measured taking into account the Sub-Fund's NAV of the period.

2.4 Historical performance of the Scheme (where applicable) and a warning that this is not an indicator of future performance – such information may be either included in or attached to the Simplified Prospectus. For this purpose, the following shall be presented:

i. the Scheme's past performance using a bar chart showing annual returns for the last ten full consecutive years. If the Scheme has been in existence for fewer than ten years but at least for a period of one year, the annual returns should be given for as many years as are available. Returns are calculated net of tax and charges, but excluding subscription and redemption fees with an appropriate statement drawing attention to this fact;

ii. the cumulative performance or cumulative average performance of the Scheme over the last ten consecutive years, or if the Scheme has been in existence for less than ten years, over as many years as are available. The Scheme should also compare the cumulative performance or cumulative average performance with the cumulative performance or cumulative average performance of a benchmark, when comparison with a benchmark applies in terms of the following bullet point;

iii. if the Scheme is managed according to a benchmark or if its cost structure includes a performance fee depending on a benchmark, the information on the past performance of the Scheme should include a comparison with the past performance of the benchmark according to which the Scheme is managed or the performance fee is calculated. The comparison is to be achieved by representing the past performance of the benchmark and that of the Scheme on the same bar chart and / or separately.

2.5 Profile of the typical investor the Scheme is designed for.

3.0 Economic information

3.1 The tax regime applicable to the Scheme and a statement which recalls that the regime of taxation of the income or capital gains received by individual investors depends on the tax law applicable to the personal situation of each individual investor and/ or to the place where the capital is invested and that if investors are unclear as to their fiscal position, they should seek professional advice.

3.2 Entry and exit fees and any other expenses payable directly by the investor and not by the Scheme.

3.3 Disclosure – either within or annexed to the Simplified Prospectus together with historical performance details – of a Total Expense Ratio ("TER"), calculated as an indicator of the Scheme's total operation costs in accordance with Annex 1 hereto, except for newly created Schemes where a TER cannot yet be calculated. Reference to an information source (such as the Scheme's web-site), where the investor may obtain previous years'/ periods' TER figures should also be included.

3.4 On an ex-ante basis, disclosure of the expected cost structure, i.e. an indication of all costs available according to the list set forth in Annex IVA below.

3.5 An indication of all the other costs not included in the TER, including disclosure, when available, of transaction costs.

3.6 As an additional indicator of the importance of transaction costs, the Portfolio Turnover Rate, calculated as shown in Annex IVB.

3.7 An indication of the existence of Fee-Sharing Agreements and Soft Commissions, and a reference to the full Prospectus for detailed information on such arrangements.

4.0 Commercial information

4.1 The procedure and any other relevant details for the purchase of Units in the Scheme.

4.2 The procedure and any other relevant details for the sale of Units in the Scheme.

4.3 In the case a Scheme set up as an of Umbrella Fund, how to switch from one Sub-Fund into another and the charges applicable in such cases.

4.4 When and how dividends on Units of the Scheme (if applicable) are distributed.

4.5 Frequency of publication or issue of Unit prices and where/ how prices are published or made available.

5.0 Additional information

5.1 A statement that, on request, the full Prospectus, and the annual and half yearly reports may be obtained free of charge before the conclusion of the contract of investment and afterwards.

5.2 Reference to the Scheme having been licensed by the MFSA in terms of the Investment Services Act, 1994 and that – where applicable – it qualifies as a Maltese UCITS Scheme in terms of the UCITS Directive (Directive 85/611/EEC).

5.3 Indication of a contact point (person/ department, timing etc.) where additional explanations may be obtained if needed.

5.4 Publishing date of the Simplified Prospectus.

Annex IV A
Contents of the Simplified Prospectus – Total Expense Ratio

1.0 Definition of the TER:

1.1 The Total Expense Ratio (TER) of a Scheme is equal to the ratio of the Scheme's total operating costs to its average net assets, calculated as indicated in Section 3 below. It is calculated at least once a year on an ex-post basis, generally with reference to the fiscal year of the Scheme. For specific purposes it may also be calculated for other time periods.

2.0 Included/Excluded costs:

2.1 The total operating costs are all the expenses which come in deduction of a Scheme's assets. These costs are usually shown in a Scheme's statement of operations for the relevant fiscal period. They are assessed on an "all taxes included" basis, which means that the gross value of expenses should be used.

2.2 They include any legitimate expenses of the Scheme, whatever their basis of calculation (e.g. flat-fee, asset-based), such as:

- management costs including performance fees;
- administration costs;
- custody fees;
- audit fees;
- payments to shareholder services providers;
- legal fees;
- any distribution or unit cancellation costs charged to the Scheme;
- registration fees, regulatory fees and similar charges;
- any additional remuneration of the management company (or any other party) corresponding to certain fee-sharing agreements in accordance to point 4.below.

2.3 The total operating costs do not include:

- Transaction costs which are costs incurred by a Scheme in connection with transactions on its portfolio. They include brokerage fees, taxes and linked charges and the market impact of the transaction taking into account the remuneration of the broker and the liquidity of the concerned assets;
- Interest on borrowing;
- Payments incurred because of financial derivative instruments;
- Entry /exit commissions or any other fees paid directly by the investor;
- Soft commissions in accordance with point 4. below;
- Any income tax levied on the Scheme's income.

3.0 Calculation method:

3.1 The TER must be calculated at least on an annual basis. The average net assets must be calculated using figures that are based on the Scheme's net assets at each calculation of the net asset value. Further circumstances or events which could lead to misleading figures have equally to be taken into consideration.

3.2 Tax relief should not be taken into account.

3.3 The calculation method of the TER must be validated by the Scheme's auditors.

4.0 Fee-Sharing Agreements and Soft Commissions:

4.1 Fee-sharing agreements on certain fees that are generally not included in the TER regularly have as a consequence that the management company or another party is actually meeting, in all or in part, costs that should normally be included in the TER. They should therefore be taken into account when calculating the TER, by adding to the total operating costs any remuneration of the management company (or another party) that derives from such fee-sharing agreements.

4.2 There is no need to take into account fee-sharing agreements on fees that are already in the scope of the TER. Soft commissions should also be left outside the scope of the TER.

4.3 Thus:

i. the remuneration of a management company through a fee-sharing agreement with a broker on transaction costs and with other fund management companies in the case of funds of funds (if this remuneration has not been already been taken into account in the synthetic TER or through other costs already charged to the fund and therefore directly included into the TER) should anyway be taken into account in the TER;

ii. conversely, the remuneration of a management company through a fee-sharing agreement with a fund (except when this remuneration falls under the scope of the specific fund-of-fund case covered in the previous indent) should not be taken into account.

5.0 Performance fees:

5.1 Performance fees should be included in the TER and should also be disclosed separately as a percentage of the average net asset value.

6.0 Schemes investing in other schemes (UCITS or non-UCITS):

6.1 When a Scheme invests at least 10% of its net asset value in other UCITS or in non-UCITS Schemes which publish a TER in accordance with this Annex, a synthetic

TER corresponding to that investment should be disclosed.

6.2 The synthetic TER is equal to the ratio of:

i. the Scheme's total operating costs expressed by its TER and all the costs suffered by the Scheme through holdings in underlying funds (i.e. those expressed by the TER of the underlying funds weighted on the basis of the UCITS investment proportion), plus the subscription and redemption fees of these underlying funds, divided by the average net assets of the fund.

Subject to applicable licence conditions precluding the charging of subscription and redemption fees to the Scheme by the underlying funds in certain circumstances, as mentioned in the previous sub-paragraph, subscription fees and redemption fees of the underlying funds should be included into the TER.

When any of the underlying non-UCITS does not publish a TER in accordance with this Annex, disclosure of costs should be adapted in the following way:

ii. The impossibility of calculating the synthetic TER for that fraction of the investment must be disclosed;

iii. The maximum proportion of management fees charged to the underlying fund(s) must be disclosed in the simplified prospectus.

iv. A synthetic figure of total expected costs, by calculating:

- a truncated synthetic TER incorporating the TER of each of those underlying funds for which the TER is calculated according to this Annex, weighted on the basis of the Scheme investment proportion; and

- by adding, for each of the other underlying funds, the subscription and redemption fees plus the best available upper-bound assessment of TER-eligible costs. This should include the maximum management fee and the last available performance fee for that fund, weighted on the basis of the Scheme investment proportion.

7.0 Umbrella Funds

7.1 In the case of Umbrella Funds, the TER should be calculated for each Sub-Fund. If, in the case of multi-class-funds, the TER differs between different share classes, a separate TER should be calculated and disclosed for each share-class. Furthermore, in keeping with the principle of equality among investors, differences in fees and expenses across classes should be disclosed in the simplified prospectus. An additional statement should indicate that the objective criteria (e.g. the amount of subscription), on which these differences are based, are available in the full prospectus.

Annex IV B
Contents of the Simplified Prospectus – Portfolio Turnover Rate

A Scheme's or, where relevant, a Sub-Fund's portfolio turnover rate should be calculated in the following way:

Purchases of securities = X
Sales of securities = Y

Total 1 = Total of transactions in securities = X + Y

Subscriptions of units of the fund = S

Redemptions of units of the fund = T

Total 2 = Total transactions in units of the fund = S + T

Average Net Assets = M

Turnover = [(Total 1 - Total 2)/M]*100

The turnover rate disclosed should correspond to the period(s) for which a TER is disclosed. The simplified prospectus should in any case include a clear reference to an information source (e.g. the fund's website) where the investor may obtain previous periods' portfolio turnover rates.

PART B: STANDARD LICENCE CONDITIONS

Appendix II
Contents of the Financial Statements

1.0 Introduction

1.1 The contents of the Annual and Half-Yearly Reports are primarily the responsibility of the Scheme concerned. Moreover, any service-providers such as Managers and/ or Custodians who include their reports within the Scheme's Reports, also have a responsibility in ensuring the accuracy and fairness of their disclosures. In the case of the Annual Report which includes the Scheme's audited financial statements, the Scheme's auditor has a responsibility insofar as the audited financial statements and the opinion expressed thereon is concerned.

1.2 A copy of the Annual and Half-Yearly Reports shall be supplied to unit-holders free of charge upon request.

1.3 A copy of the Annual and Half-Yearly Reports should also be submitted to the MFSA, together with:

i. in the case of Annual Report, a Directors' Confirmation in line with para. 1.5 below and an Auditor's Report in line with para. 1.6 below.

ii. in the case of Half-Yearly Reports, a Directors' Confirmation in line with para. 1.5 below.

1.4 The Scheme and/or its Manager should ensure that all the necessary checks have been carried out to ensure the accuracy and completeness of the Reports prior to publication. An indication of the nature of checks which the Authority expects to be performed (which should not be interpreted as an exhaustive list), is included in Annex III hereto.

1.5 Copies of Annual and Half-Yearly Reports submitted to the MFSA should be accompanied by a Directors' confirmation to the effect that to the best of their knowledge, the Report is complete and accurate in all material respects and conforms with MFSA's requirements in terms of the Scheme's Licence. A specimen of the wording of such a confirmation is included on Annex I hereto.

1.6 In so far as the Annual Report is concerned, the Scheme will be required to request its auditors to review the Report in its entirety to ensure that it includes all disclosures required by this Appendix and that all references to figures included in the audited financial statements are accurate. The Scheme shall require the auditor to provide it with an opinion to this effect which shall be retained in the Scheme's records. A specimen of the wording of such an opinion is included in Annex II hereto.

1.7 The MFSA reserves the right to take whatever action it deems appropriate should it

come across material misstatements and/or inaccurate or incomplete information therein. Such action may range from requests for clarifications, to the possible imposition of fines and – where necessary – the publication of amendments to the Reports. MFSA reserves the right to issue a Public Notice (at the expense of the party concerned) highlighting why amendments have been necessary.

1.8 Dates for the initial reports issued by a collective investment scheme should be agreed with the MFSA at the time of the granting of the licence.

1.9 The Annual Report should contain a Balance Sheet or a Statement of Assets and Liabilities, a detailed Income and Expenditure Account for the financial year, a report on the activities of the financial year and the other information outlined in Section 2 below

The Half-Yearly Report should contain the information outlined in Schedule II to this Appendix.

1.10 The Annual and Half-Yearly Reports should be available to the public at locations, or through other means as approved by the MFSA, specified in the full Prospectus, and should be supplied to unit-holders free of charge upon request.

2.0 Information to be included in the Annual Report

2.1 The Annual Report should include the following as well as any additional significant information which will enable investors to make an informed judgement on the progress of the Scheme and its results.

2.2 A Balance Sheet or Statement of Assets and Liabilities, including details of accounting and valuation policies, and a definition and explanation of equalisation. The statement of Assets and Liabilities should include:

i. Securities

ii. Debt Instruments

iii. Bank balances

iv. Other assets

v. Total assets

vi. Liabilities

vii. Net Asset Value

2.3 Number of units in circulation.

2.4 Net Asset Value per unit and mid-market price per unit, at the beginning and the end of the period.

2.5 Portfolio details, distinguishing between the different types of investments and categorising each investment in accordance with the most appropriate criteria in the light of the Investment Policy of the Scheme (for example, in accordance with economic, geographical or currency criteria) as a percentage of Net Assets. For each of the investments the proportion it represents of the total Net Assets of the Scheme should be stated. Details of the composition of the portfolio should distinguish at least between:

i. Securities admitted to official stock exchange listing;

ii. Securities dealt in on another regulated market;

iii. recently issued Securities;

iv. Securities not included in the above;

v. Debt Instruments not included in the above; and

vi. other investments as applicable.

Note: Reference in sub-paragraph (iii) to recently issued Securities includes securities the terms of issue of which include an undertaking that application will be made for admission to official stock exchange listing or to another Regulated Market.

2.6 A statement of change in the composition of the portfolio during the period.

2.7 A statement of the developments concerning the assets of the Scheme during the period including the following:

i. income from investments;

ii. other income;

iii. management charges;

iv. custodian's charges;

v. other charges and taxes;

vi. net income;

vii. distributions and income reinvested;

viii. changes on capital account;

ix. appreciation or depreciation of investments;

x. cash movements in relation to the creation and cancellation of units;

xi. details of transactions with the Manager, the Custodian or their associates; and

xii. any other changes affecting the assets and liabilities of the scheme.

2.8 A comparative table covering the last three financial years and including, for each financial year, at the end of the financial year:

i. the total Net Asset Value;

ii. the Net Asset Value per unit.

During its first, second and third financial years, the Scheme should show the above information for all financial years since its inception.

2.9 Details, by category of transaction, of the resulting amount of commitments. ("Commitments" are those commitments resulting from the use of techniques and instruments for the purposes of efficient portfolio management, including protection against exchange, interest rate and market risks.)

2.10 A report by the Manager on the activities of the Scheme during the period.

2.11 A report by the Custodian on whether the Scheme has been managed :

i. in accordance with the limitations imposed on the investment and borrowing powers of the Scheme by the Constitutional Documents and by the MFSA; and

ii. in accordance with its Constitutional Documents and its Licence Conditions.

2.12 Names and addresses of all Scheme functionaries.

2.13 Details of significant changes to full Prospectus during the period.

2.14 A statement regarding breaches of Licence Conditions and/or regulatory sanctions. Where there have been no breaches or regulatory sanctions, it is sufficient merely to say so. However, if there have been breaches, a summary must be provided of each breach committed and/or regulatory sanction imposed.

2.15 The accounting information provided in the Annual Report must be audited by a qualified auditor approved by the MFSA. The auditor's report, including any qualifications thereto, shall be reproduced in full in the Annual Report.

3.0 Information to be included in the Half-Yearly Report

3.1 A Balance Sheet or Statement of Assets and Liabilities, including details of accounting and valuation policies, and a definition and explanation of equalisation. The statement of Assets and Liabilities should include:

i. Securities

ii. Debt Instruments

iii. Bank balances

iv. Other assets

v. Total assets

vi. Liabilities

vii. Net Asset Value

3.2 Number of units in circulation.

3.3 Net Asset Value per unit and mid-market price per unit, at the beginning and the end of the period.

3.4 Portfolio details, distinguishing between the different types of investments and categorising each investment in accordance with the most appropriate criteria in the light of the investment policy of the scheme (for example, in accordance with economic, geographical or currency criteria) as a percentage of Net Assets. For each of the investments the proportion it represents of the total Net Assets of the Scheme should be stated. Details of the composition of the portfolio should distinguish at least between:

i. Securities admitted to official stock exchange listing;

ii. Securities dealt in on another regulated market;

iii. recently issued Securities;

iv. Securities not included in the above;

v. Debt Instruments not included in the above;

vi. Other investments as applicable.

Note: References in sub-paragraph (iii) to recently issued Securities includes Securities the terms of issue of which include an undertaking that application

will be made for admission to official stock exchange listing or to another Regulated Market.

3.5 A statement of changes in the composition of the portfolio during the period.

3.6 Where the Scheme holds more than 10 per cent of its assets in deposits or other accounts with credit institutions, details of the amounts and the names of the institutions should be provided. Schemes holding less than 10 per cent of their assets in deposits or other accounts with credit institutions should submit the relevant details to the MFSA with the Report.

3.7 A comparative table covering the last three financial years and including, for each financial year, at the end of the financial year:

i. the total Net Asset Value;

ii. the Net Asset Value per unit.

During its first, second and third financial years, the Scheme should show the above information for all financial years since its inception.

3.8 A report by the Manager on the activities during the period.

3.9 Names and address of all Scheme functionaries.

3.10 Where the Scheme has paid or proposes to pay an interim dividend, the Half-Yearly Report should give the results after tax for the half-year concerned and the amount of the dividend paid or proposed.

Annex I
Specimen Directors' Confirmation

(Addressed by the Directors responsible for the preparation of the Annual/Half-Yearly Report of the Scheme to the MFSA)

We the undersigned, are responsible for the preparation of the Annual/Interim Report of (name of Scheme) for the period/year ended _____ and confirm that to the best of our knowledge:

- it is complete and accurate in all material respects and conforms with the MFSA's requirements in terms of the Scheme's Licence Conditions; and
- any disclosures of the Scheme's past performance are accurate and in conformity with the MFSA's applicable requirements.

_____ _____

Director Director

Annex II
Specimen Auditors' Opinion

(Addressed by the Auditor to the MFSA)

We the undersigned have audited the financial statements of (name of Scheme) for the period/year ended _____ in accordance with International Standards on Auditing. In our opinion the Annual Report is complete in all material respects in accordance with the MFSA's requirements, and the Scheme's Licence Conditions.

Moreover, based on our review procedures, nothing has come to our attention that causes us to believe that the information contained in the Annual Report is inconsistent with the financial statements, the books of account and the records of (name of Scheme).

_____
Auditor
Date

_____
(Signature and Date)

Annex III
Checks to be Undertaken to ensure the accuracy and completeness of the Reports prior to publication

1. Incomplete/ inaccurate information regarding scheme Functionaries and Directors

Check: Up to date complete details regarding the Scheme functionaries and Directors/ General Partner(s)/ Trustee should be included in all Reports.

2. Issues relating to the Manager's report on activities during the period

2.1 Reference to Performance rates without a clear indication of the basis of calculation and/ or rates which are not in line with the MFSA's requirements ordinarily applicable for rates quoted in advertisements

Check: Any reference to past performance rates should be supported by a clear description of the basis of calculation. Moreover, the requirements ordinarily applicable for rates quoted in advertisements (eg. offer to bid/ annualised rates etc), should be complied with.

2.2 Statements and/ or expressions of opinion which do not take in to account/ reflect developments occurring between the end of the reporting period and the publication date of the report

Check: Care should be exercised to ensure that any statements or expressions of opinion are/ will remain relevant upon publication. The Manager should seek to provide as much relevant information as possible to aid investors understand both the performance of the Scheme during the relevant period, as well as the possible effect on performance of subsequent events occurring between the end of the reporting period and publication date.

2.3 Over optimistic statements and/ or expressions of opinion regarding the Scheme's future performance

Check: Care should be exercised to ensure that any statements or expressions of opinion regarding future predicted performance are as balanced and objective as possible.

3. Incomplete/ inaccurate Custodian reports included in Annual Reports

Check: The Custodian's Report should include the matters stipulated in para. 2.11 above.

4. *Inconsistent reference to performance rates in different sections of the Report*

Check: All past performance references throughout the Reports, eg. quoted in the Directors' and Manager's report, should be cross-checked for accuracy and consistency.

5. *Inconsistencies between statistics disclosed in the Reports and those previously reported to MFSA in the Monthly Returns*

Check: Salient statistics such as:

- Total Net Assets Value;
- Net Assets Value per unit;
- Number of shares in circulation;

should ordinarily agree with those reported to the MFSA in the Scheme's Monthly Statistical Returns. Inconsistencies may either reflect errors in the Monthly Statistical Returns or in the Reports. Alternatively, there may be valid reasons for such discrepancies. The Schemes, the Manager or the Custodian should provide MFSA with a clear explanation of the reasons for any discrepancies – preferably prior to publication of the Reports. In such instances, a minimum of two weeks clear notice should be provided.

6. *Risk Warnings*

Check: Although these Rules do not include a specific requirement for inclusion of risk warnings, the MFSA considers that minimum disclosure of the following 'standard' risk warnings should be included:

- Past performance is no guarantee of future performance; and
- The value of the Scheme, including the currencies in which they are denominated, may fall as well as rise.

PART B: STANDARD LICENCE CONDITIONS

Appendix III
Contents of the Constitutional Documents

1.0 Schemes set up as Investment Companies or Limited Partnerships

1.1 The Constitutional Documents shall:

i. provide that the assets of the Scheme shall be entrusted to a Custodian for safekeeping;

ii. specify the conditions under which there may be effected, and the procedure to be followed with respect to, the replacement of the Manager or the Custodian including the right of the MFSA to require such replacement. There shall be provisions to ensure the protection of Unit holders in such circumstances;

iii. specify the procedures for the creation and cancellation of Units;

iv. define clearly the method of valuation of the assets of the Scheme, which method shall have been approved by the MFSA;

v. provide that the Units of the Scheme shall be issued or sold at a price arrived at by dividing the net asset value of the Scheme calculated on the approved basis by the number of Units outstanding. Such price may be increased by duties and charges;

vi. provide that Units shall not be issued unless the equivalent of the net issue price is paid into the assets of the Scheme within the time limits prescribed in the Constitutional Documents. Provided that this provision shall not preclude the issue of bonus units

vii. provide that Units shall be redeemed or repurchased at a price arrived at by dividing the net asset value of the Scheme calculated on the approved basis by the number of Units outstanding. Such price may be decreased by duties and charges;

viii. determine the frequency of the calculation of the issue and repurchase prices. This shall be preferably, on each business day and definitely at least twice each month. The prices shall be made available with similar frequency. The Scheme shall repurchase its Units on such terms as may be provided in its Constitutional Documents;

ix. provide that the Scheme, or the Manager, or the Custodian shall issue registered certificates representing one or more portions of the Scheme, or

alternatively written confirmation of entry in the register of Units or fractions of Units;

x. provide that rights attaching to fractions of Units shall be exercisable in proportion to the fractions of a Unit held except for voting rights which shall only be exercisable in whole Units;

xi. prescribe the basis upon which the Manager, Administrator, Investment Adviser and the Custodian may charge remuneration and expenditure to the Scheme;

xii. lay down provisions relating to the allocation and distribution of income;

2.0 Schemes set up as Common Contractual Funds or Unit Trusts

2.1 The Constitutional Documents shall:

i. provide that the Trustee shall ensure that the sale, issue, repurchase, redemption and cancellation of Units effected by or on behalf of the Scheme are carried out in accordance with MFSA's requirements, the Constitutional Documents and the most recent Prospectus;

ii. provide that the Trustee shall ensure that the value of Units is calculated in accordance with the provisions of the Constitutional Documents;

iii. provide that the Trustee shall carry out the instructions of the Manager unless they conflict with the Licence Conditions or the Constitutional Documents;

iv. provide that the Trustee shall ensure that in transactions involving the Scheme's assets, consideration is remitted to it within time limits which are acceptable market practice in the context of a particular transaction;

v. provide that the Trustee shall ensure that the Scheme's income is applied in accordance with the Constitutional Documents;

vi. provide that the Trustee shall enquire into the conduct of the Manager in each annual accounting period and report thereon to the holders of Units. The Trustee's report shall be delivered to the Manager in good time to enable the Manager to include a copy of the report in its Annual Report. The Trustee's report shall state whether in the Trustee's opinion the Scheme has been managed during that period:

- in accordance with the limitations imposed on the investment and borrowing powers of the Scheme by the Constitutional Documents and by the MFSA; and

- otherwise in accordance with the provisions of the Constitutional Documents and the Licence Conditions.

If the Manager has not complied with these requirements, the Trustee shall state why this is the case and outline the steps which the Trustee has taken to rectify the situation;

vii. provide that the Trustee will be liable to the Manager, the Scheme and the holders of Units for any loss suffered by them as a result of its failure to perform its obligations or its improper performance of them. It shall be provided that holders of Units shall be able to enforce this liability either directly or indirectly through the Manager;

viii. provide that the liability of the Trustee shall not be diminished if it has entrusted to a third party some or all of the assets in its safe-keeping;

ix. provide that the Trustee shall not enter into a contract for the sale of assets unless such assets belong to the Scheme;

x. provide that the Trustee shall notify the MFSA of any breach of the Licence Conditions or of any breach of the provisions of the Constitutional Documents as soon as it becomes aware of the breach;

xi. prescribe the remuneration and the expenditure which the Manager is empowered to charge to the unit trust and the method of calculation of such remuneration

xii. provide that a General Meeting of the holders of Units shall be held at least once each year.

PART B: STANDARD LICENCE CONDITIONS

Appendix IV
Distributions of Income

1.0 Accounting periods

a. This regulation determines what are the annual and half-yearly accounting periods of a Scheme but this is subject to the right of the management company to choose that any particular annual or half-yearly accounting period shall end on a day which is not more than seven days after and not more than seven days before the day on which that accounting period would otherwise end.

b. Subject to paragraphs (c), (d) and (e), annual accounting periods are successive periods of twelve months and the first six months of an annual accounting period is a half-yearly accounting period.

The first half-yearly accounting period shall be determined by the management company, or the investment company, with the approval of the Custodian.

c. The first annual accounting period shall begin:-

i. where the Scheme is the subject of an initial offer, on the first day of the period of the initial offer, or

ii. in any other case, when the Scheme is authorised.

d. The first annual accounting period shall end:-

i. on the next day in the calendar year which is the day specified in the most recently published Scheme particulars as the day on which the annual accounting period ends; or

ii. if that next day is less than six months after the beginning of the first annual accounting period and the management company, or the investment company, after consulting the auditor, and with the consent of the MFSA, so determines, on the first anniversary of that next day.

e. The first annual accounting period after the making of a change in the dates of the annual accounting period shall begin on the day next following the end of the annual accounting period immediately preceding the making of that change and shall end:-

i. on the next day in the calendar year which is the new day on which the annual accounting period ends; or

ii. if that next day is less than six months after the beginning of the first annual accounting period to be completed after the making of the change and the management company, or the investment company, after consulting the auditor, and with the consent of the MFSA, so determines, on the first anniversary of that next day.

2.0 Annual income allocation date

a. Each of the sub-funds of a Scheme set up as an umbrella fund shall for the purposes of this regulation and of regulations 3 to 9 of this Appendix be regarded as separate Schemes.

b. A Scheme shall have an annual income allocation date, which is the date in any year stated in the most recently published Scheme particulars as the date on or before which, in respect of each annual accounting period, an allocation of income is to be made.

c. The annual income allocation date must be a date within the two months following the relevant financial year end.

3.0 Annual allocation of income

a. On or before each annual income allocation date the management company, or the investment company, shall calculate under paragraph (b) of this regulation the amount available for income allocation in respect of the immediately preceding annual accounting period, and shall inform the Custodian of that amount.

b. Allocation to the *"income account"*: -

i. take the aggregate of the income property received or receivable by the Scheme in respect of the period;

ii. include in (i) any income equalisation amount received by the Custodian on Units created during the period, including any resulting from the final valuation;

iii. add the management company's, or the investment company's, best estimate of any relief from tax on expenses properly payable out of income in respect of the period;

iv. deduct the aggregate of all the management company's, and the Custodian's remuneration properly paid or payable in respect of the period;

v. deduct the aggregate of the payments out of income property paid or payable in respect of the period;

vi. deduct such provision for taxation as the management company, or the investment company, after consulting the auditor considers appropriate;

vii. deduct the aggregate of those parts of the cancellation prices of Units cancelled during that period (including any cancelled by relation to the final valuation) as were attributable to the addition of income property to the calculation of the cancellation price including any income equalisation amount paid by the Custodian on cancellation;

viii. deduct (or disregard) and carry forward any potential income, if the Custodian and the management company, or the investment company, agree that, because adequate information is normally not available about how that income accrues, it ought generally not to be accounted for on an accrued basis;

ix. deduct (or disregard) and carry forward any potential income, if the Custodian and the management company, or the investment company, agree that that income is not likely to be received by the Custodian until 12 months after the income allocation date, provided the auditor is satisfied that the Custodian has made and intends to continue to make all proper efforts to obtain its receipt; and

x. adjust for the re-allocation of the expenses from the "income account" to the "capital account". The Custodian, in consultation with the management company, or the investment company, shall exercise reasonableness in effecting these re-allocations.

Provided that schemes that are not *"distributor funds"* but which have the power in terms of their prospectus to make distributions of income, may transfer any realised capital gains net of realised and/ or unrealised capital losses from the "capital account" to the "income account".

c. At the end of each annual accounting period, the Custodian shall transfer the positive balance, if any, in the *"income account"* to an account to be known as the *"distribution account"*.

d. The Scheme may decide to distribute all or part of the balance in the *"distribution account"* and shall either directly or through the management company instruct the Custodian accordingly. In that case the Custodian shall carry the remaining balance in the *"distribution account"* forward to the next annual accounting period.

e. The Custodian is not obliged to comply with paragraph (c) of this regulation if it appears to the Custodian, having consulted the management company, or the investment company, that the average payment to the holders of Units (disregarding holders of bearer certificates, holders of accumulation units, and holders of Units who are the management company or the Custodian or associates of either of them) by way of income would be less than Lm1.00 (or the equivalent amount in the base currency).

f. Where the Custodian decides under paragraph (e) of this regulation not to distribute income, the Custodian must so inform the management company, or the investment company, which must then immediately instruct the Custodian either: -

i. to carry the balance in the *"income account"* forward to the next annual accounting period (and to regard it as received at the start of that period), or

ii. to credit the income to the *"capital account"*.

g. On or before the annual income allocation date, the Custodian shall allocate the available income to the Units in existence in accordance with regulation 5 or 6 or both.

4.0 Annual allocation of capital gains/ losses

a. Allocation to the *"capital account"*: -

i. take the aggregate of the capital property realised and/ or unrealised by the Scheme in respect of the period; and

ii. adjust for the re-allocation of the expenses from the *"income account"* to the *"capital account"*.

5.0 Annual allocation to accumulation Units

a. Where a Scheme has in existence both accumulation Units and income Units, the Custodian shall allocate the amount available for allocation of income between accumulation Units and income Units according to the respective shares in the property of the Scheme represented by the accumulation Units and income Units in existence at the end of the relevant annual accounting period.

b. The amount allocated to accumulation Units (whether under paragraph (a) of this regulation or because all the Units are accumulation Units) shall, with effect from the end of the annual accounting period, become part of the

capital property and be reflected by an increase, as at the end of the period either:

i. in the value of the property of the Scheme which an accumulation Unit represents or,

ii. where undivided shares are allocated to Unit holders, in the number of undivided shares in the property of the Scheme which an accumulation Unit represents.

c. The increase in undivided shares under paragraph (b)(ii) of this regulation shall be of such number (which may be a fraction but must be calculated to at least three decimal places) as will ensure that the creation price of an accumulation Unit remains unchanged notwithstanding the transfer of the income to the capital property or the relevant part of it.

6.0 Annual distribution to holders of income Units

a. Subject to paragraph (b) of this regulation, where the Units in existence in a Scheme are or include income Units, on or before each annual income allocation date the Custodian shall distribute the income allocated to those Units among the holders and the management company rateably in accordance with the number of such Units held or deemed to be held by them respectively at the end of the relevant annual accounting period.

b. Before distributing income under paragraph (a) of this regulation, the Custodian shall: -

i. deduct any amounts previously allocated by way of interim allocation of income in respect of that annual accounting period, and

ii. deduct and carry forward in the *"income account"* such amount as shall be necessary to adjust that allocation of income to the nearest one-hundredth of a cent (or the equivalent amount in the base currency) per income Unit or such lesser fraction as the management company may from time to time determine.

c. Nothing in these Guidelines shall require the Custodian to distribute income allocated to any Units in any case where the management company, or the investment company, or the Custodian considers it necessary or appropriate to carry out or complete identification procedures in relation to the holder or another person pursuant to a statutory or regulatory obligation.

7.0 Interim allocations of income

a. This regulation applies if at any time the most recently published Scheme particulars: -

i. state that an allocation of income will be made before the annual income allocation date in any year in respect of a period ("an interim accounting period") within the annual accounting period, and

ii. specify a date as the interim income allocation date in relation to that interim accounting period.

b. In such a case, regulations 3 to 6 shall apply so as to secure the making of an interim allocation of income as if: -

i. the interim accounting period in question and all previous interim accounting periods in the same annual accounting period taken together, were the annual accounting period;

ii. the interim income allocation date were the annual income allocation date, and

iii. the management company, or the investment company, were to treat as the available amount of income for the interim allocation a sum in its opinion not exceeding the amount which would be available for allocation of income if the interim accounting period and all previous interim accounting periods in the same annual accounting period taken together were an annual accounting period.

8.0 Income equalisation

a. An allocation of income (whether annual or interim) to be made in respect of each Unit created or issued or sold during the accounting period in respect of which that income allocation is made shall include a capital sum ("income equalisation") representing the management company's, or the investment company's, best estimate of the amount of income included in the creation price or in the creation price by reference to which the issue or selling price of that Unit was determined.

b. The amount of income equalisation may be the actual amount of income in question or, if the Constitutional Documents permit it, it may be an amount arrived at by taking the aggregate of the amounts of income included in the creation price in respect of Units of the type in question issued or re-issued in the accounting period in question (or such lesser period as is specified for this purpose in the Constitutional Documents) and dividing that aggregate by the number of those Units and applying the resultant average to each of the Units in question.

c. Income equalisation in the case of a Unit re-issued by the management company, or the investment company, in the accounting period in question is financed out of the income equalisation amounts paid by the management

company, or the investment company, to the Custodian; and, accordingly, the management company, or the investment company, shall be paid by the Custodian out of the *"distribution account"* (in the case of income Units) and out of the capital property (in the case of accumulation Units) a sum equal to the income equalisation applicable to that Unit when allocations of income are next made for an interim or for an annual accounting period.

9.0 How distributions may be made

a. Any monies payable by the Custodian to a holder in respect of any Unit, the title to which is for the time being represented by a bearer certificate, may be paid by crossed cheque or warrant made payable to the order of the person who, in such manner as is prescribed in the Constitutional Documents, has identified himself to the Custodian as the person entitled to that distribution and may be sent by post to such address as that person shall have disclosed to the Custodian for that purpose.

b. Any monies payable by the Custodian to the management company or to a registered holder in respect of any Unit may be paid by crossed cheque or warrant made payable to the order of and sent through the post to the usual business address of the management company or the registered address of such holder, as the case may be, or, in the case of joint holders, made payable to and sent to the registered address of that one of the joint holders who is first named on the register.

c. The payment of any cheque or warrant to the first named of joint holders shall be as effective a discharge to the Custodian and the management company, or the investment company, as if such first named joint holder had been a sole holder.

d. Every such cheque or warrant which is so sent shall be a satisfaction of the monies payable and shall be a good discharge to the Custodian and the management company, or the investment company.

e. Where an authority in writing given by the holder (or in the case of joint holders by all of them) in such form as the Custodian shall consider sufficient, is held by the Custodian, he shall pay the amount payable in accordance with that authority.

f. Any distribution payment which shall remain unclaimed after a period of twelve years from the date of payment shall then be transferred to and become part of the capital property and henceforth neither the payee nor the holder nor any successor in title of his shall have any right thereto or therein except as part of the capital property.

10.0 Distribution statements and tax details

a. On or before any income allocation date (whether annual or interim) the Custodian shall send to each holder (or to the first named of joint holders) entitled to be entered in the register as at the end of the accounting period in question and shall on request give or send to every holder of Units the title to which is represented by a bearer certificate: -

   i. a statement prepared by the management company, or the investment company, showing the calculation of the amount of income allocated in respect of the period to which he is entitled, whether or not the income is distributed to him or allocated to accumulation Units and, where applicable, a statement of how much of the amount to which he is entitled represents income equalisation, and

   ii. details of any tax deducted in respect of that income.

b. In the case of any distribution on liquidation of a Scheme, details shall be given as to the proportion of the distribution which represents capital and the proportion which represents income.

c. If in any year an interim allocation of income is made in respect of a period of less than six months it shall, subject to paragraph (d) of hereunder, be a sufficient compliance with this regulation in relation to that interim allocation period if: -

   i. instead of sending or giving a distribution statement for that period in accordance with paragraph (a)(i), the information which would have been given in such a statement is included in the next distribution statement for a half-year or for a full year to be sent or given, and

   ii. tax details are sent or given in accordance with the requirements for the time being of the Department of Inland Revenue.

d. Paragraph (c) of this regulation does not absolve the Custodian from complying with paragraph (a) of this regulation in respect of any person who was entitled to any part of the interim allocation but who ceased to be a holder of any or all of his Units before the end of the period to be covered in the next distribution statement; but in such a case the Custodian shall comply with paragraph (a) of this regulation on or before the next ensuing annual (or half-yearly) income allocation date.

PART B: STANDARD LICENCE CONDITIONS

Appendix V
Monthly Statistical Return

1.	Name of Scheme	_____
2.	Month End	_____
3.	Year	_____
4.	Return Submitted by (Please delete as appropriate)	Scheme/ Manager/ Administrator
5.	Base Currency	_____
6.	Total Net Asset Value ("NAV") expressed in base currency	_____
7.	Total NAV expressed in Euro (unless base currency is Euro)	EUR _____
8.	Net asset value per unit at month-end.	_____
9.	Percentage change in net asset value per unit compared to the previous month.	_____
10.	Date when NAV last calculated	_____
11.	Number of units in circulation at the reporting date	_____
12.	Net proceeds from the issue of units during month	_____
13.	Payments made for the repurchase of units during month.	_____
14.	Net amount generated by issues and repurchases during month.	_____

Declaration

I confirm that I am authorised to sign this Monthly Return on behalf of the Scheme. I further confirm that to the best of my knowledge and belief, the information contained in this return is both accurate and complete.

Name	

Signature	

Title/ Capacity in which signed	

Date	

PART B: STANDARD LICENCE CONDITIONS

Appendix VI
Commitment rules for commonly traded Financial Derivative Instruments

1.0 Maltese UCITS Schemes

1.1 A Scheme which qualifies as a Non Sophisticated UCITS Scheme may assess its global/ total exposure relating to Financial Derivative Instruments and its leverage by using the Commitment Approach (Section 13 of Part B II of these Rules refers). The Commitment Approach is calculated by converting the Scheme's positions in Financial Derivative Instruments into the equivalent positions of the underlying assets embedded in those derivatives based on the market value of the underlying assets.

1.2 Position (issuer-concentration) limits and position cover requirements shall be calculated using the Commitment Approach (SLCs 5.20, 5.22, 5.24, 5.25 of Part B II of these Rules refer)

1.3 The following is a non-exhaustive list of the requirements that must be followed by a Scheme that qualifies as a Non Sophisticated UCITS Scheme in calculating its global/ total exposure relating to Financial Derivative Instruments and its leverage:

i. *Exchange Traded Future:*
- Long (Buy): Positive market value of underlying asset
- Short (Sell): Positive market value of underlying asset
- Hedge: Nil

ii. *Exchange Traded Index Future:*
- Long (Buy): Positive market value of underlying index (contract size X index value)
- Short (Sell): Positive market value of underlying index
- Hedge: Nil

iii. *Put Option:*
- Long (Buy): Positive delta-adjusted market value of underlying asset (market value of underlying asset X delta of the option)
- Short (Sell): Positive delta-adjusted market value of underlying asset
- Hedge: Nil

iv. *Call Option:*
- Long (Buy): Positive delta-adjusted market value of underlying asset
- Short (Sell): Positive delta-adjusted market value of underlying asset
- Hedge: Nil

v. *Currency Forwards:*
- Non-hedge: Positive market value of underlying asset

- Hedge: Nil

vi. *Interest Rate Swap*
- Non-hedge: Positive market value of underlying asset
- Hedge: Nil

vii. *Cross Currency Interest Rate Swap*
- Non-hedge: Positive market value of underlying asset
- Hedge: Nil

viii. *Forward Rate Agreement*
- Non-hedge: Positive market value of underlying asset
- Hedge: Nil

ix. *Credit Default Swap*
- Buy (Protection Buyer): Positive market value of underlying asset
- Sell (Protection Seller): Positive market value of underlying asset
- Hedge (Protection Buyer): nil

x. *Contract for Differences*
- Long (Buy): Positive market value of underlying asset
- Short (Sell): Positive market value of underlying asset
- Hedge: Nil

xi. *Swaption*
- As options

xii. *Warrant*
- As options

xiii. *Total Return Swap*
- Long (Buy): Positive market value of underlying asset
- Short (Sell): Positive market value of underlying asset
- Hedge: Nil

GLOSSARY TO THE INVESTMENT SERVICES RULES FOR RETAIL COLLECTIVE INVESTMENT SCHEMES

This Glossary should be read in conjunction with the Investment Services Rules for Retail Collective Investment Schemes issued by the MFSA.

"Act" or "ISA": The Investment Services Act, 1994.

"Administrator": A person appointed by the Scheme or its Manager responsible for the provision of administration services to the Scheme.

"Adviser": See "Investment Adviser".

"Annual Income Allocation Date": The date in any year stated in the most recently published full Prospectus of the Scheme as the date on or before which, in respect of each Annual Accounting Period, an allocation of income is to be made.

"Capital Account": An account relating to the capital property of the Scheme.

"Capital Property": The Scheme Property, other than Income Property and any amount for the time being standing to the credit of the Distribution Account.

"Collective Investment Scheme Licence": Shall have the same meaning as that assigned to it by Article 2 of the Act.

"Collective Investment Scheme": Shall have the same meaning as that assigned to it by Article 2 of the Act and shall include any Sub-Funds of such scheme.

"Compliance Officer": The person appointed by the Scheme or its Manager as applicable, responsible for ensuring compliance by the Scheme with its applicable Licence Conditions.

"Constitutional Documents": The documents constituting the Scheme: in the case of a Scheme set up as an investment company, its Memorandum and Articles of

Association, statutory documents, or other instrument of incorporation; in the case of a Scheme set up as a limited partnership the Deed of Partnership or partnership agreement; in the case of a Scheme set up as a unit trust the Trust Deed and in the case of a Scheme set up as a common contractual fund the Fund Rules.

"Custodian": The person appointed by the Scheme responsible for safekeeping of the assets of the Scheme and for carrying a monitoring function over the activities of the Manager.

"Distribution account": The account to which the balance in the Income Account of the Scheme must be transferred as at the end of each annual accounting period.

"Distributor Fund":

A Scheme which has as its main objective and/ or holds itself out as providing regular distributions of income in the form of dividends to its Unit holders.

"EEA State": Shall have the same meaning as that assigned to it by Regulation 2 of the Undertakings for Collective Investment in Transferable Securities and Management Companies Regulations, 2004 as amended and includes European Union Member States, Norway, Iceland and Liechtenstein.

"European UCITS Scheme": Shall have the same meaning as that assigned to "European UCITS" by Regulation 2 of the Undertakings for Collective Investment in Transferable Securities and Management Companies Regulations, 2004 as amended.

"Feeder Fund": A Scheme which invests at least 85% of its assets in one Scheme or in one Sub-Fund of an Umbrella Scheme.

"Fee-Sharing Agreements": Arrangements:

- whereby a party remunerated either directly, or indirectly, out of the assets of a Scheme agrees to split its remuneration with another party; and
- which result in that party meeting expenses through this fee-sharing agreement that should normally be met, either directly or indirectly, out of the Scheme's assets.

These include:

- fee-sharing agreements on transaction costs between a Scheme's management company and a broker whereby the broker agrees to split with the management company the transaction fees paid by the Scheme to the broker for processing transactions for the Scheme; and
- fee-sharing agreements in Funds of Funds between a Scheme's Manager and another fund (or its Manager) whereby, if that Scheme invests in the fund, part of the fees charged to that Scheme (either directly – subscription/ redemption fees – or indirectly – TER) because of this investment will be paid by the target fund (or its Manager) to the Scheme's Manager.

"Full Prospectus": Shall have the same meaning as that assigned to the word "Prospectus" by Article 2 of the Act.

"Fund of Funds": A Scheme which invests predominantly in other Schemes.

"Income Account": An account relating to the income property of a Scheme.

"Income Allocation Date": An Annual Income Allocation Date or an Interim Income Allocation Date.

"Income Property": All sums considered by the Scheme or by the management company, to be in the nature of income received or receivable for the account of and in respect of the property of the Scheme, but excluding any amount for the time being standing to the credit of the distribution account.

"Interim Income Allocation Date": The date in any year stated in the most recently published full Prospectus of the Scheme as the date on or before which, in respect of each Interim Accounting Period, an allocation of income is to be made.

"Investment Advertisement": Shall have the same meaning as that assigned to it by Article 2 of the Act.

"Investment Adviser": A person appointed by the Scheme or its Manager responsible for advising the Scheme or the Manager regarding the investment and re-investment of the assets of the Scheme.

"Investment Committee":	An internal committee of a Self Managed Scheme appointed by the Board of Directors of the Scheme.
"Investment Services Licence Holder":	A person who holds an Investment Services Licence.
"Investment Services Licence":	Shall have the same meaning as that assigned to it by Article 2 of the Act.
"Investment Services Rules for Investment Services Providers":	Investment Services Rules issued by the MFSA in terms of Article 6 of the Investment Services Act, 1994 applicable to Investment Services Licence Holders and equivalent authorised persons.
"Investment Services Rules for Professional Investor Funds":	Investment Services Rules issued by the MFSA in terms of Article 6 of the Investment Services Act applicable to Professional Investor Funds.
"Investment Services Rules for Retail Collective Investment Schemes":	Investment Services Rules issued by the MFSA in terms of Article 6 of the Investment Services Act, 1994 applicable to Retail Collective Investment Schemes.
"Licence Holder":	Shall have the same meaning as that assigned to it by Article 2 of the Act.
"Maltese Management Company":	Shall have the same meaning as that assigned to it by Regulation 2 of the Undertakings for Collective Investment in Transferable Securities and Management Companies Regulations, 2004 as amended.
"Maltese Non UCITS Scheme":	An open ended or closed ended retail Scheme formed in accordance with or existing under the laws of Malta.

A Maltese Non UCITS Scheme is subject to the requirements outlined in Part B I of these Rules.

"Maltese UCITS Scheme": Shall have the same meaning as that assigned to "Maltese UCITS" by Regulation 2 of the Undertakings for Collective Investment in Transferable Securities and Management Companies Regulations, 2004 as amended.

A Maltese UCITS Scheme shall be subject to the Stanrd Licence Conditions included in Part B II of these Rules.

"Manager": A person appointed by the Scheme responsible for the management of the assets of the Scheme.

"Member State": Shall have the same meaning as that assigned to it by Regulation 2 of the Undertakings for Collective Investment in Transferable Securities and Management Companies Regulations, 2004 as amended.

"MFSA": The Malta Financial Services Authority.

"MIFID": Directive 2004/39/EC of the European Parliament and of the Council of the 21st April 2004 on markets in financial instruments amending Council Directives 85/611EEC and 93/6/EEC and Directive 2000/12/EC of the European Parliament and of the Council and repealing Council Directive 93/22/EEC .

"Money Laundering Reporting Officer" or "MLRO":

The person appointed by the Scheme in terms of Regulation 10 of the Prevention of Money Laundering and Funding of Terrorism Regulations, 2006.

"Money Market Instruments": Financial instruments normally dealt in on the money market which are liquid; have a value which can be accurately determined at any time and which:

a. are admitted to trading or dealt in on a regulated market in accordance with SLC 4.1(i) to (iii); or

b. are not admitted to trading.

The reference to money market instruments as *"instruments*

normally dealt in on the money market" shall be understood as a reference to financial instruments which fulfil one of the following criteria:

i. they have a maturity at issuance of up to and including 397 days; or

ii. they have a residual maturity of up to and including 397 days; or

iii. they undergo regular yield adjustments in line with money market conditions at least every 397 days; or

iv. their risk profile, including credit and interest rate risks, corresponds to that of financial instruments which have a maturity as referred to in points (i) or (ii), or are subject to a yield adjustment as referred to in point (iii).

The reference to Money Market Instruments as instruments which are *"liquid"* shall be understood as a reference to financial instruments which can be sold at limited cost in an adequately short time frame, taking into account the obligation of the Scheme to repurchase or redeem its Units at the request of any Unit holder.

The reference to Money Market Instruments as instruments which *"have a value which can be accurately determined at any time"* shall be understood as a reference to financial instruments for which accurate and reliable valuations systems, which fulfil the following criteria, are available:

i. they enable the Scheme or its Manager or Administrator on its behalf to calculate a net asset value in accordance with the value at which the financial instrument held in the portfolio could be exchanged between knowledgeable willing parties in an arm's length transaction; and

ii. they are based either on market data or on valuation models including systems based on amortised costs.

The criteria of *"liquid"* and *"have a value which can be accurately determined at any time"* referred to above shall be presumed to be fulfilled in the case of financial instruments which are normally dealt in on the money market, or dealt in on, a regulated market in accordance with SLC 4.1 (i) to (iii) of Part B II of these Rules, unless there is information available to the Scheme or its Manager that would lead to a different determination.

"Non Sophisticated UCITS":

A Maltese UCITS Scheme which uses simple Financial Derivative Instruments (eg plain vanilla options or futures) for non-complex hedging or investment strategies.

"Overseas based Non UCITS Scheme":

An open ended or closed ended Scheme formed in accordance with or existing under the laws of a jurisdiction other than Malta which is not harmonised in accordance with the EU UCITS Directive (Directive 85/611/EEC).

"Personal Questionnaire" or "PQ":

Schedule E to Part A of the Investment Services Rules for Retail Collective Investment Schemes.

"Professional Investor Fund":

A special class of collective investment schemes which fall within the provisions of the Act and are subject to the Investment Services Rules for Professional Investor Funds. Presently there are three classes of Professional Investor Funds as follows:

i. PIFs promoted to Experienced Investors (or Experienced Investor Funds);
ii. PIFs promoted to Qualifying Investors (or Qualifying Investor Funds); and
iii. PIFs promoted to Extraordinary Investors (or Extraordinary Investor Funds).

"Qualifying Money Market Fund":

A collective investment undertaking authorised under the UCITS Directive or which is subject to supervision and, if applicable authorised by an authority under the national law of an EU Member State, and which satisfies the following conditions:

i. its primary investment objective must be to maintain the net

asset value of the undertaking either constant at par (net of earnings), or at the value of the investors' initial capital plus earnings**;**

ii. it must, with a view to achieving that primary investment objective, invest exclusively in high quality money market instruments with a maturity or residential maturity of no more than 397 days, or regular yield adjustments consistent with such a maturity, and with a weighted average maturity of 60 days. It may also achieve this objective by investing on an ancillary basis in deposits with credit institutions;

iii. it must provide liquidity through the same day or next day settlement.

For the purposes of point (ii) above, a Money Market Instrument shall be considered of high quality if it has been awarded the highest available credit rating by each competent rating agency which has rated that instrument. An instrument that is not rated by any competent rating agency shall not be considered of high quality.

For the purposes of the paragraph above, a rating agency shall be considered to be competent if it issues credit ratings in respect of Money Market Funds regularly and on a professional basis and is an eligible ECAI within the meaning of Article 81(1) of Directive 2006/48/EC. Recasting Directive 2000/12/EEC of the 20th March 2000 relating to the taking up and pursuit of the business of credit institutions.

"Qualifying Shareholder": A person who has a Qualifying Shareholding.

"Qualifying Shareholding": Shall have the same meaning as that assigned to it by Article 2 of the Act.

"Regulated Market":

A multilateral system operated and/or managed by a market operator, which brings together or facilitates the bringing together of multiple third-party buying and selling interests in financial instruments – in the system and in accordance with its non-discretionary rules – in a way which results in a contract, in respect of the financial instruments admitted to trading under its rules and/or systems, and which is authorised and functions regularly in accordance with the provisions of Title III of the

MIFID.

"Relevant Institution": A credit institution which falls under one of the following categories:

i. a credit institution authorised in an EEA State (EEA);
ii. a credit institution authorised within a signatory state, other than a Member State of the EEA, to the Basle Capital Convergence Agreement of July 1988 (Switzerland, Canada, Japan, United States); and
iii. a credit institution authorised in Jersey, Guernsey, the Isle of Man, Australia or New Zealand.

"Retail CIS": A Collective Investment Scheme which does not qualify as a Professional Investor Fund which is subject to the Investment Services Rules for Retail Collective Investment Schemes.

"Scheme": See "Collective Investment Scheme".

"Security" or "Securities": Shall have the same meaning as that assigned to the word "security" by Article 2 of the Companies Act, 1995 and shall include Transferable Securities and Money Market Instruments as defined herein.

"Self Managed Scheme": A Scheme which has not appointed a Manager as its designated investment manager responsible for the management of its assets.

"Side Letter": A letter or agreement entered into by the Scheme or its Manager on its behalf, with one or more investors, with the purpose of agreeing particular terms relating to redemption conditions, fees or other matters relevant to an investor's investment in the Scheme.

"SLC": means Standard Licence Conditions.

"Soft Commissions":

Any economic benefit, other than clearing and execution services, that an asset manager receives in connection with the Scheme's payment of commissions on transactions that involve the Scheme's portfolio of securities. Soft commissions are typically obtained from, or through, the executing broker.

"Sophisticated UCITS": A Maltese UCITS Scheme which does not qualify as a Non Sophisticated UCITS.

"Sub-Funds": The distinct class or classes of Units constituting that Sub-Fund in an Umbrella Fund to which are allocated assets and liabilities distinct from other assets and liabilities allocated to other sub-funds in the same Umbrella Scheme.

"Sub-Manager": A person generally appointed by the Manager of the Scheme responsible for the day to day management of part or all of the portfolio of the Scheme.

"Terms of Reference": A document approved by the Board of Directors of a Self Managed Scheme which regulates the proceedings of the Investment Committee of the Scheme. The Terms of Reference ordinarily includes clauses which cover the following areas:

i. Composition of the Investment Committee (including the minimum and maximum number of members)
ii. Appointment of the members of the investment committee (this section would appoint the members of the Investment Committee and list the names of the members)
iii. Frequency of meetings
iv. Quorum
v. Role of the Investment Committee
vi. Record Keeping
vii. Minutes of the meetings of the committee
viii. Delegation of day to day management to one or more Portfolio Managers
ix. Appointment of Investment Committee members and Portfolio Managers subject to MFSA approval
x. Responsibilities of Portfolio Managers
xi. Votes of members of the Investment Committee
xii. Management of conflicts of interests
xiii. Resignation of members of the Investment Committee
xiv. Procedure for amendments to the Terms of Reference.

"Transferable Securities": Shares in companies and other securities equivalent to shares in companies ("shares"); bonds and other forms of securitised debt ("debt securities"); any other negotiable securities which carry the right to acquire any such transferable securities by subscription or exchange, excluding the techniques and instruments referred to in Article 21 of the UCITS Directive.

Transferable securities shall be taken to include the following:

i. Units in closed-ended funds constituted as investment

companies or as unit trusts which fulfil the following criteria:

a. they fulfil the criteria set out in para. above applicable to transferable securities;
b. they are subject to corporate governance mechanisms applied to companies;
c. where asset management activity is carried out by another entity on behalf of the closed-ended fund, that entity is subject to national regulation for the purpose of investor protection;

ii. Units of closed-ended funds constituted under the law of contract which fulfil the following criteria

a. they fulfil the criteria set out in SLC 4.4 of Part B II of these Rules;
b. they are subject to corporate governance mechanisms equivalent to those applied to companies as referred to in point (i)(b) ;
c. they are managed by an entity which is subject to national regulation for the purpose of investor protection;

iii. financial instruments which fulfil the following criteria:

a. they fulfil the criteria set out in SLC 4.4 of Part B II of these Rules;
b. they are backed by, or linked to the performance of other assets, which may differ from those referred to in SLC 4.1 of Part B II of these Rules.

"Trustee": See "Custodian".

"UCITS Directive": EU Directive on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (Council Directive 85/611/EEC of the 20 December 1985), as amended from time to time.

"UCITS Regulations": The Undertakings for Collective Investment in Transferable Securities and Management Companies Regulations, 2004 as amended.

"UCITS": A collective investment scheme, falling within the scope of and

authorised in terms of the UCITS Directive.

"Umbrella Fund": A Collective Investment Scheme which may in terms of its constitutional documents issue classes of shares or Units which constitute Sub-Funds.

"Umbrella Scheme":

See "Umbrella Fund".

"Unit holder": This term applies to a holder of a Unit, i.e. a shareholder/ member in the case of a Scheme set up as an investment company, a participant in the case of a Scheme set up as a common contractual fund, a Unit holder in the case of a Scheme set up as a unit trust and a partner/ member in the case of a a Scheme set up as a limited partnership.

"Unit": Shall have the same meaning as that assigned to it by Article 2 of the Act.

Annex II to the Circular regarding Proposed Revised Standard Licence Conditions for Maltese UCITS Schemes

A number of SLCs included in the new Part B II of the new Rules are primarily aimed at incorporating the requirements applicable to UCITS Schemes included in following documents:

i. CESR's guidelines on the classification of hedge fund indices as financial indices published in July 2007 (Ref: CESR/07-434) **("CESR Guidelines")**;
ii. Commission Recommendation on the use of financial derivative instruments for undertakings for collective investment in transferable securities (UCITS) (2004/383/EC) **("Commission Recommendation")**; and
iii. Commission Directive 2007/16/EC of 19 March 2007 implementing Council Directive 85/611/EEC on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS) as regards the clarification of certain definitions **("Commission Directive")**;

as indicated hereunder.

Proposed Part B II of new Rules	**Part C III of the current Investment Services Guidelines**	**Document Transposed**
SLC 1.1	First para. (revised)	
SLC 1.2	NEW	
SLC 1.3	NEW	
SLC 1.4	NEW	
SLC 1.5	NEW	
SLC 2.1	SLC 1.01 (revised)	
SLC 2.2	NEW	
SLC 2.3	SLC 1.05	
SLC 2.4	SLC 1.03	
SLC 2.5	SLC 1.04 (revised)	
SLC 2.6	NEW	
SLC 2.7	NEW	
SLC 2.8	NEW	
SLC 2.9	SLC 1.05 (revised)	
SLC 2.10	NEW	
SLC 2.11	NEW	
SLC 2.12	NEW	
SLC 2.13	SLC 1.05 (revised)	
SLC 2.14	NEW	
SLC 2.15	SLC 1.02 (revised)	
SLC 2.16	SLC 1.33 (revised)	
SLC 2.17	SLC 1.05 (revised)	

Proposed Part B II of new Rules	**Part C III of the current Investment Services Guidelines**	**Document Transposed**
SLC 2.18	SLC 1.03 (revised)	
SLC 2.19	SLC 1.01 (revised)	
SLC 2.20	SLC 1.06 and 1.07	
SLC 2.21	SLC 1.05 (revised)	
SLC 2.22	NEW	
SLC 2.23	NEW	
SLC 2.24	NEW	
SLC 2.25	NEW	
SLC 2.26	NEW	
SLC 2.27	NEW	
SLC 3.1	NEW	
SLC 3.2	NEW	
SLC 3.3	NEW	
SLC 3.4	NEW	
SLC 3.5	NEW	
SLC 3.6	NEW	
SLC 3.7	NEW	
SLC 3.8	NEW	
SLC 3.9	NEW	
SLC 3.10	NEW	
SLC 4.1	SLC 4.01 (revised)	
SLC 4.2	SLC 4.02	
SLC 4.3	SLC 4.03	
SLC 4.4	NEW	Article 2(1) of the Commission Directive
SLC 4.5	NEW	Article 5(1) of the Commission Directive
SLC 4.6	NEW	Article 5(2) of the Commission Directive
SLC 4.7	NEW	Article 5(3) of the Commission Directive
SLC 4.8	NEW	Article 5(4) of the Commission Directive
SLC 4.9	NEW	Article 6 of the Commission Directive
SLC 4.10	NEW	Article 7(1) of the Commission Directive
SLC 4.10	NEW	Article 7(2) of the Commission Directive
SLC 4.11	NEW	Article 8(1) of the Commission Directive
SLC 4.11	NEW	Article 8(5) of the Commission Directive
SLC 4.12	NEW	Article 8(2) of the Commission Directive
SLC 4.13	NEW	Article 8(3) of the Commission Directive
SLC 4.13	NEW	Article 8(4) of the Commission Directive
SLC 4.14	NEW	Article 6.2 of the Commission Recommendation
SLC 4.14	NEW	Article 9(1) of the Commission Directive

Proposed Part B II of new Rules	Part C III of the current Investment Services Guidelines	Document Transposed
SLC 4.15	NEW	Article 9(2) of the Commission Directive
SLC 4.16	NEW	Box 1 of the CESR Guidelines
SLC 4.16	NEW	Box 2 of the CESR Guidelines
SLC 4.17	NEW	Box 3 of the CESR Guidelines
SLC 4.17	NEW	Box 4 of the CESR Guidelines
SLC 4.18	NEW	Box 6 of the CESR Guidelines
SLC 5.1	NEW	
SLC 5.2	SLC 4.44	
SLC 5.3	NEW	
SLC 5.4	SLC 4.04	
SLC 5.5	SLC 4.05	
SLC 5.6	SLC 4.06	
SLC 5.7	SLC 4.07	
SLC 5.8	SLC 4.08	
SLC 5.9	SLC 4.09	
SLC 5.10	SLC 4.10	
SLC 5.11	SLC 4.11	
SLC 5.12	SLC 4.12	
SLC 5.13	SLC 4.13	
SLC 5.14	SLC 4.14 (revised)	Article 5.2 of the Commission Recommendation
SLC 5.15	NEW	Articles 5.4.1 and 5.4.2 of the Commission Recommendation
SLC 5.16	NEW	Article 5.5 of the Commission Recommendation
SLC 5.17	NEW	Article 5.1 of the Commission Recommendation
SLC 5.18	SLC 4.15 (revised)	Articles 11(1) and (2) of the Commission Directive
SLC 5.19	SLC 4.16 (revised)	Article 2.1of the Commission Recommendation
SLC 5.20	SLC 4.17	
SLC 5.21	SLC 4.17	
SLC 5.22	SLC 4.17 (revised)	Articles 2(3), 10(1), 10(2) and 10(3) of the Commission Directive and Article 6.1 of the Commission Recommendation
SLC 5.23	SLC 4.18	
SLC 5.24	SLC 4.27 (revised)	Articles 7.3, 7.4 and 7.5 of the Commission Recommendation
SLC 5.25	NEW	Articles 7.1, 7.2, 7.4 and 7.5 of the Commission Recommendation

Proposed Part B II of new Rules	**Part C III of the current Investment Services Guidelines**	**Document Transposed**
SLC 5.26	SLC 4.19	Article 1 of the Commission Recommendation
SLC 5.27	SLC 4.20	
SLC 5.28	SLC 4.21	
SLC 5.29	SLC 4.22	
SLC 5.30	SLC 4.23	
SLC 5.31	SLC 4.24	
SLC 5.32	SLC 4.25	
SLC 5.33	NEW	Article 6.3 of the Commission Recommendation
SLC 5.33	SLC 4.26	
SLC 5.34	SLC 4.27	
SLC 5.35	SLC 4.28 (revised)	
SLC 5.36	SLC 4.29	
SLC 5.37	SLC 4.30 (revised)	Article 12(1), 12(2), 12(3) and 12(4) of the Commission Directive
SLC 5.38	SLC 4.31	
SLC 5.39	SLC 4.32	
SLC 5.40	SLC 4.33	
SLC 5.41	SLC 4.34	
SLC 5.42	SLC 4.35	
SLC 5.43	SLC 4.36	
SLC 5.44	SLC 4.37	
SLC 5.45	SLC 4.38	
SLC 5.46	SLC 4.39	
SLC 5.47	SLC 4.40 (revised)	Article 2.2 of the Commission Recommendation
SLC 5.48	SLC 4.41	
SLC 5.49	SLC 4.42	
SLC 5.50	SLC 4.43	
SLC 5.51	NEW	
SLC 5.52	NEW	
SLC 6.1	SLC 3.01	
SLC 6.2	NEW	
SLC 6.3	NEW	
SLC 6.4	SLC 3.03	
SLC 6.5	SLC 3.04	
SLC 6.6	NEW	
SLC 6.7	SLC 3.05	
SLC 6.8	SLC 3.06	

Proposed Part B II of new Rules	**Part C III of the current Investment Services Guidelines**	**Document Transposed**
SLC 6.9	NEW	
SLC 7.1	SLC 2.01 (revised)	
SLC 7.2	NEW	
SLC 8.1	SLC 1.29 (revised)	
SLC 8.2	NEW	
SLC 8.3	SLC 3.02	
SLC 8.4	SLC 1.28	
SLC 9.1	NEW	
SLC10.1	SLC 1.19	
SLC11.1	SLC 5.01	
SLC11.2	SLC 5.02	
SLC12.1	SLC 1.32	
SLC12.2	SLC 1.08 (revised)	
SLC12.3	SLC 1.30 (revised)	
SLC12.4	SLC 1.31	
SLC12.5	SLC 6.03	
SLC12.6	SLC 1.09	
SLC12.7	SLC 1.10	
SLC12.8	SLC 1.11 (revised)	
SLC12.9	SLC 1.12	
SLC12.10	SLC 1.13	
SLC12.11	SLC 1.14	
SLC12.12	SLC 1.15 (revised)	
SLC12.13	SLC 1.16	
SLC12.14	SLC 1.17	
SLC12.15	SLC 1.18 (revised)	
SLC12.16	SLC 1.20	
SLC12.17	SLC 1.21	
SLC12.18	NEW	
SLC12.19	SLC 1.23 (revised)	
SLC12.20	SLC 1.24	
SLC12.21	SLC 1.25	
SLC12.22	SLC 1.26	
SLC12.23	SLC 1.27	
SLC12.24	SLC 1.22 (revised)	
SLC13.1	NEW	Article 3.2.1 of the Commission Recommendation
SLC13.1	NEW	Article 4.1 of the Commission Recommendation

Proposed Part B II of new Rules	**Part C III of the current Investment Services Guidelines**	**Document Transposed**
SLC13.1	NEW	Article 4.2 of the Commission Recommendation
SLC13.2	NEW	Article 4.1 of the Commission Recommendation
SLC13.2	NEW	Article 4.2 of the Commission Recommendation
SLC13.3	NEW	Article 3.2.3 of the Commission Recommendation
SLC13.4	NEW	Article 3.2.1 of the Commission Recommendation
SLC13.5	NEW	Article 3.2.2 of the Commission Recommendation
SLC13.7	NEW	
SLC13.8	NEW	Articles 3.3.1 and 3.3.3 of the Commission Recommendation
SLC13.9	NEW	Article 3.3.2 of the Commission Recommendation
SLC13.10	NEW	Article 3.3.1 of the Commission Recommendation
SLC13.11	NEW	
SLC13.12	NEW	Article 4.2 of the Commission Recommendation
SLC13.13	NEW	
SLC14.1	SLC 1.34	
SLC14.2	NEW	
SLC14.3	SLC 1.34	
SLC14.4	NEW	
SLC14.5	NEW	
SLC14.6	NEW	
SLC15.1	NEW	
SLC15.2	NEW	
SLC15.3	SLC 1.34	
SLC15.4	SLC 1.34	
SLC15.5	SLC 1.34	
SLC15.6	NEW	
SLC15.7	NEW	
SLC16.1	NEW	
SLC16.2	SLC 6.01 (revised)	
SLC16.3	SLC 6.02 (revised)	
SLC16.4	SLC 6.04 (revised)	
SLC16.5	NEW	

Proposed Part B II of new Rules	Part C III of the current Investment Services Guidelines	Document Transposed
SLC16.6	NEW	
SLC16.7	NEW	
SLC16.8	NEW	
SLC16.9	NEW	
SLC16.10	NEW	
SLC16.11	NEW	
SLC16.12	NEW	
SLC16.13	NEW	
SLC16.14	NEW	
SLC17.1	SLC 7.01 (revised)	
SLC17.2	SLC 7.02	
SLC17.3	SLC 7.03	
SLC17.4	SLC 7.04	
SLC18.1	SLC 7.05	
SLC18.2	SLC 7.06	
SLC18.3	SLC 7.07	
SLC18.4	SLC 7.08	
SLC18.5	SLC 7.09	
SLC18.6	SLC 7.10	

Appendices: new Rules	Appendices: current Investment Services Guidelines	Document Transposed
Appendix 1	Appendix 9 (revised)	
Appendix 2	Appendix 6 (revised)	
Appendix 3	SLC 2.01	
Appendix 4	Appendix 8	
Appendix 5	Appendix 5 (revised)	
Appendix 6	New	