Capital Protected Funds
A Global Survey
FOREWORD

The Islamic Development Bank is committed to support comprehensive human development in its Member Countries using Islamic products and instruments. As the global financial crisis has shown, new products need to be ethically anchored to serve the real economy, or otherwise they would become a liability on the society at large.

Exploring new financial instruments for supporting development, therefore, is a primary objective in our endeavor to serve our Member Countries, and to lead the Islamic financial industry to new heights in the 21st century.

An important step in this direction was the establishment of the Financial Product Development Center (FPDC) in 1432H, 2011, to act as a focal point for product innovation across IDBG and build upon the pioneering role of the IDB Group in promoting and expanding the Islamic financial industry.

The Center has since embarked on various initiatives for new product development, including:

2. Building capacity of product developers within IDBG.
3. Designing new financial products.

This Survey on Capital Protected Funds provides a valuable input for the design of innovative products. The Report surveys a large sample of capital-protected funds, both Islamic and conventional, in various regions across the globe. It encapsulates the definitions, structures and the hedging mechanisms used by the surveyed funds. This, we hope, would provide a good background and a base to launching efforts for designing new products that carefully manage risks without jeopardizing incentives and responsibilities.

The ultimate objective is to inform the Islamic financial industry and facilitate progress in finding new Shariah-compliant ways to serve the dynamic needs of our Member Countries. I believe this Survey is another solid stride in that direction.

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Islamic Development Bank
ACKNOWLEDGEMENTS

This Report is a product of a comprehensive and meticulous survey conducted by Amal El-Haouti, who was then with the Deloitte Centre of Excellence in UAE. After completing the survey, Sister Amal prepared the first draft of the full report.

The first draft was then carefully reviewed by Dr. Amine Bin Ammar, who was then an intern at the Financial Product Development Center.

The staff at the Center then extensively reviewed, edited and finalized the report for publishing.

The Center would like to accord its deep appreciation to each and all of these professionals who helped to complete this project, for their gracious efforts and valuable contributions.
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I. Introduction

When markets suffer a sustained downturn and the outlook becomes uncertain, investors instinctively rush to safety. This rule was confirmed during the global financial crisis, when capital protected funds were brought back to the front of the scene as those who suffered huge losses became more demanding on capital preservation. The popularity of these products also reposes on their ability to generate higher returns compared to fixed income securities, especially in a low interest rate environment, and to provide a safe exposure to eventual upswings in the equity market.

Capital protected funds are recognized internationally as a bear market phenomenon. It is noteworthy that they have also evolved and gotten ripe after each crisis. In the aftermath of the 2008 financial meltdown, manufacturers of capital protected products proved to be more responsive to investors’ needs; they came up with innovative and more customer-centric features.

This survey attempts to throw some light on what became a fashionable investment option and offers a broad view on how capital protected funds operate globally. It also attempts to assess the level of diversity and innovation within these products and, where possible, to determine their peculiarities in each region.

1. Objective of the survey

The survey aims to report the salient features of capital protected funds worldwide, including the Islamic ones. For each region of the globe, it gauges the peculiarities for the best performing capital protected funds including:

- Type of assets;
- Whether closed or open-ended;
- Valuation method of the units;
- Fund size expressed in terms of “Total Net Assets”.

These elements would guide in addressing some questions. Initially, we proceed per region:

- Is there a predominant structure of capital protected funds? For example, a regulatory restriction that imposes a closed-end structure or open-ended funds, whichever is found to be more popular in a particular area.
- Whether there is an outstanding protection technique, or on the contrary, all techniques are equally important?
- What is the degree of sophistication of the protection mechanisms: whether different techniques are combined or some innovative features are used?
- The type of assets is closely correlated with the protection technique. It could also give an indication on the risk appetite of a particular fund or of a whole region at a bigger scale, if there is a noticeable trend.
- How liquid are capital protected funds? This question could be tackled by looking at:
  - Redemption/ Subscription frequency
  - Listing in secondary market
- Is there a prominent valuation method?
- Is there a particular remark concerning the size of funds within a given region: whether they tend to be of a small size or otherwise?
Afterwards, the survey makes an inter-regional comparison with regards to the features of capital protected funds. We will compare the major trends and, more importantly, examine the degree of sophistication of each geographic area.

This extensive study of conventional capital protected funds serves as a reference from which we could critically approach the Islamic protected funds industry. For instance, the findings of Islamic protected funds survey may help us in:

- Identifying if any conventional protection techniques have been adapted to the Shari’ah requirements.
- Finding out whether they mimic the conventional industry so far, or they follow their own trajectory.
- Assessing the diversity of the protection techniques and the types of assets as compared to their conventional counterparts.
- Determining whether they allow as much flexibility as their conventional peers or do they just stick to the framework imposed by some Islamic contracts and hence, need to innovate and design more client-oriented features.

2. Research methodology

To address the stated questions, we proceed in two steps. The first part of this research is dedicated to recalling the basics and presenting the main overall findings. This is presented in the first five chapters, including this Introduction. Chapter 2 introduces general aspects about investment funds, the concept of capital protected funds and the related investment process. It also elaborates on how investor psychology contributes to the popularity of protected funds and the advantages attributed to these particular products. Chapter 3 provides a brief historical background on capital protection: how it evolved over time and the major events that shaped the main product varieties. While explaining the evolution of protected funds industry, Chapter 3 also highlights the three most popular protection techniques: the Option Based Strategy, the Constant Proportion Portfolio Insurance and the technique based on Dynamic Hedging. Chapter 4 presents more insight on these techniques. It details the features, mechanisms and the pros & cons of each technique before concluding with an overall comparison. Chapter 5 is intended to play the devil’s role. It provides the perspective of those who oppose capital-protected funds and argue on their uselessness as well as those who warn about the potential pitfalls. Chapter 6 highlights the main findings and interpretations revealed by the first part of the research. Those who wish to gain an extensive view on the survey should refer to the second part.

After introducing the necessary tools for understanding and interpreting the findings, the capital protected funds survey is tackled in the second part. In this part, conventional and Islamic funds are treated separately. Since the first group counts a considerable number of funds, the survey is conducted with a regional focus in order to study how the capital protected fund industry evolved in different places of the world. The number of funds to be scrutinized was attributed per region, depending on the financial activity and number of countries within the area. As a result:

- 10 funds were allocated to Europe;
- 11 funds to America;
- 17 funds to Asia and Pacific and
- 6 funds to MENA¹.

Since Islamic funds are generally concentrated in specific countries like Pakistan, Malaysia and the Middle East, the number of capital protected funds is limited. For this reason, the survey

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¹ MENA short for “Middle East and North Africa”.
is conducted at once in the same chapter. The research approach is globally the same for both Islamic and conventional funds when we proceed per region:

1. We look for renowned fund screeners and databases and see whether they list and rank capital protected funds.
2. If yes, we select the best performing funds according to the criteria of the fund’s screener. Lipper, a Thomson Reuters Company, for instance, rates funds based on “Total Return,” i.e. income from dividends and interest as well as capital appreciation, compared to a group of similar funds.¹
3. If the database does not propose any ranking or if we have constituted our own database by mere internet browsing, we may select our funds based on Year-To-Date “YTD” rate of return, if available, or Return Since Inception otherwise.
4. After establishing a preliminary list², the selection will be further refined to reach the quota previously established for each region.
5. The final list will be set taking into account two factors: the investment fund activity of the respective countries within the region and the diversification of protected funds investment strategies.
   - Ultimately, for each fund on the list we look for the elements stated in “Objective of the survey”
     - Date of establishment;
     - Type of assets;
     - Whether it is closed or open;
     - If open, the frequency of redemption and subscription in the fund after being launched;
     - Valuation method of the units;
     - Secondary trading of the fund units, if any , and
     - Fund size expressed in “Total Net Assets”.

These would be summarized and used to elaborate the overall conclusion.

3. Delimitations

There are different aspects to cover when studying capital protected funds. Those that have been addressed so far respond to specific needs, namely those expressed in “Objective of the survey”. However, the research could be extended to include other elements as well, namely:

- The investment term of the fund;
- The fund’s fees: like sales charges paid upfront and annual management fees (for example 2.00% p.a on the fund’s capital);
- Possibility of withdrawals before maturity: either partial or total;
- Any redemption fees;
- Any distributions;
- Any guaranteed returns;

With these additional elements, we could examine and compare the costs involved in each of the three major protection techniques. Then we could try to assess the level of protection fees per region. It will also be possible to verify whether the new funds, especially those established post-crisis, require lower fees or not. Flexibility of withdrawal is a worthy criterion to identify the third generation of capital protected funds launched after the financial crisis. Analyzing the

¹ http://www.lipperleaders.com/
² It is also referred to in this survey as “pre-selection sample”
distributions of returns would help to recognize the funds that propose innovative features and whether they are located in specific regions or restricted to newly established funds. All these elements could stimulate and feed thoughts for future research.
II. Definitions and rationale behind capital protected funds

Capital protection can be applied to different types of funds. Therefore, we first define investment funds, and then elaborate on the concept of capital protection and the related investment process. Finally, we try to explain investors’ attraction towards capital protected funds and list down some advantages attributed to these products.

1. Funds’ terminology
   
a. Investment funds can be found worldwide, but under different names and structures

   According to the U.S. Securities and Exchange Commission, a mutual fund is a company that brings together contributions from many investors to invest in stocks, bonds or other assets. The combined holdings a fund owns are known as its portfolio. Each investor in the fund owns shares, which represent a part of these holdings. Under this collective investment, investors participate in a larger and more diversified portfolio and benefit from a specialized and professional management which would not be possible otherwise. Mutual funds can be proposed by insurance companies, banks, asset managers or investment companies.

   In the U.S., collective investment schemes or investment funds can be classified as mutual funds, unit investment trusts or closed-end funds. In the UK, they could be categorized as investment trusts, unit trusts, common investment funds and open-ended investment companies. The most popular term in the EU to designate collective investments is “UCITS” which stands for Undertakings for Collective Investment in Transferable Securities.

b. Investment funds classifications

   Mutual funds can be classified according to the asset type: for instance equity funds, bond funds, money market funds or mixed assets funds, to name a few.

   The classification can be made according to the objective of investment; namely income funds, growth funds, index funds. Hedge funds are also a type of mutual funds that use derivatives and short selling, amongst other strategies, to operate efficiently in both rising and declining markets.

   Another distinctive feature is the structure of the fund. When a fund invests in other funds, it is called a “fund of funds”. A fund that other funds invest in is called a “master fund”. An “umbrella fund” refers to a collective investment scheme, which is a single legal entity but has several distinct sub-funds which, in effect, are traded as individual investment funds.

   While considering the legal structure, funds can be structured as trusts, partnership or

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companies as they may have joint ownership structure with no legal personality. The Exchange Traded Fund (ETF) is a special case where the fund tracks an index but is bought and sold as a listed company.¹

A fund is said to be “open-ended”, when it has a variable capital or when there is no restriction on the number of shares the fund will issue. If the demand is high enough, the fund managers may continue to issue shares. These funds could also redeem shares if investors wish to sell them back. Sometimes, when the fund management determines that the fund’s total asset has become too large to realize its stated objective, the fund will be closed to new investors or even to new investments by the existing investors.

On the other hand, “closed-end” funds have a fixed number of shares outstanding and do not redeem shares the way “open-ended” funds do. Closed-end funds are similar to stocks: they issue a fixed number of shares to the public in an Initial Public Offering (IPO). The funds’ shares are then bought and sold on a stock exchange and they are not obligated to issue new shares or redeem others as the open-ended funds do. The unit price of a closed-end fund’s share is entirely determined by the market.

c. Net Asset Value (NAV)

As mutual funds pool together investors’ contributions, there should be a way to determine the investors’ claims over the fund’s net assets². As a matter of fact, ownership is proportional to the number of shares held and the value of each share is called the Net Asset Value “NAV”.

\[
\text{Net Asset Value Per Share} = \frac{\text{Market Value Fund} - \text{Liabilities Fund}}{\text{Number of Shares issued}}
\]

The NAV per share is the current market value of the fund’s holdings minus its liabilities divided by the number of shares issued. The fund could be valued on a daily, weekly or monthly basis or otherwise, depending on the fund’s policy³ or on the rules imposed by the relevant financial authorities⁴.

2. Capital Protected Funds

a. Concept

A Capital Protected fund can be one of any of the investment funds described above. Its peculiarity lies in the protection strategies that limit the downside risk of the investment while trying to realize profits from rising markets. These strategies allow investors to retrieve, at maturity, their initial investment or a certain percentage of it (as stipulated in the protected fund prospectuses and documentations) even if the markets bottom out. Generally, returns are generated by investing in (high return) risky assets and the protection is ensured through the investment in (low return) safe assets.

¹ Ibid, page 23.
² For more details refer to the U.S. Securities and Exchange Commission: http://www.sec.gov/answers/nav.htm
³ Ibid.
⁴ For the example of France, refer to: http://www.morningstar.fr/fr/news/article.aspx?articleid=58117&categoryid=73
These funds are marketed under a variety of names, for instance “principal protected fund”, “capital preservation fund” and “principal protection note,” etc. They can also be referred to as “structured funds”. As a reminder, a “structured product” combines a traditional financial instrument and derivatives to deliver a highly customized risk-return objective to individual investors, which is not possible with the usual financial instruments. In fact, capital protected funds may have recourse to derivatives and other traditional assets (bonds for example) to provide the desired level of capital protection.

Capital protected funds are often confused with capital guaranteed funds. The difference actually lies in the risk that the investors are exposed to in receiving their initial investment. A capital guaranteed fund is guaranteed by the issuing financial institution, for example a fund house or a bank. In such a case, the investors are guaranteed to receive their initial investment and they could only be exposed to the solvency risk of the issuing institution. Capital protected funds are not guaranteed by a particular institution; the investors might not receive their initial investment in full. If the fund issuer uses safe debt-assets instruments, the subsequent risk is the one linked to the bond issuer.

b. Investing in capital protected funds

Closed-end fund

When a closed-end fund is launched, the units are proposed to the investors for a limited period, the initial offering period, after which the fund is closed to new investments. The offering documentations and the fund construction could be subject to changes during this period. The fund documentations disclose the fund structure, the fund objective, the investment strategy, the fees structure and other relevant information. Right before the end of the offering period, the fund management finalizes the portfolio construction and the internal procedures.

In closed-end funds, the investors are supposed to hold their shares to maturity to benefit from capital protection on their initial investment. If the units are sold prior to the maturity date, the protection feature will be lost. Besides, a fee is imposed on investors in case of early redemption. By the end of the fund’s tenure, investors can either reinvest in the fund or redeem their shares to cash the benefits, if any.

Open-ended fund

The issuance of new units, for an open-ended fund, is made during the initial offering period in which units will not be redeemed. The fund’s documentation is also preliminary and is subject to eventual changes by the end of the offering period.

Subsequent to the first offer, the fund shall issue and redeem shares on a continuous basis. Units can be purchased at the offer price and redeemed at the redemption prices set by the management and based on the Net Asset Value (NAV). Similar to the closed-end funds, most of the open-ended funds suspend capital protection if units are redeemed before the minimum period set by the fund. Besides, a fee could also be charged for early redemption.

3. What makes capital protected funds so appealing?

a. Understanding investor’s psychology

In a bullish market, it is not rational to buy at unusual high prices, since prices are more likely to go down. In such times, it is probably better to sell out. In contrast, when prices are low,
and they are more likely to rise, it is better to invest. Hence, it seems odd to head for safety and to pay extra fees for downside protection when markets may not go down any further; while it makes more sense for the investor to look out for better opportunities. Yet, selling capital protection becomes a hard task during market peaks; although investors are supposed to prevent their capital from any eventual drop when there is still something to protect. In an attempt to provide some explanations to such irrational behavior, market experts analyzed investors’ psychology and found out the following:

We are emotional investors: Our brain is structured in a manner that decision does not depend solely on abstract rational considerations of investment choices. Meaning that our decision making process usually involves emotional inputs that may push us to buy when markets are bullish and to adopt a cautious behavior or to sell when they start to fall.

We usually follow the trend: The actions of the investor are influenced by those of people around him. Indeed, when thousands of investors support each other’s decisions, it creates a bubble. Hence, in falling markets, rationality dictates that we should hold tight our investments, but we start selling when everyone around us is doing the same.

Finally, we always favor certainty: We require certainty, especially in the time of stress as it becomes easier for us to comprehend. And we tend to be less worried about our investments when markets are showing positive results.

Capital protected products seem to offer a good “Greed & Fear” trade-off: By following our natural instinct to favor certainty, capital protected products allow us to invest when markets are falling, or to remain invested when we would normally sit on the sidelines watching the opportunities pass by being too cautious to seize them. By removing the fear associated with investing in discounted markets, the brain would be able to make rational investment decisions without the impact of the emotional inputs.

Rationally, it makes no sense to head for downside protection in distressed markets: the protection will not be activated as the markets could not go down any further. Yet, in such circumstances, the additional value of capital protection is undeniably its merit to encourage the cautious investors to take exposure to growth assets, though at a substantial protection cost.

b. Advantages of capital protected funds

Besides the fact that capital protection provides the feeling of safety to investors and encourages them to take part in falling markets, there are other facts that contribute to the popularity of the capital protected funds.

Falling interest rates favor the proliferation of capital protected funds: During a crisis, the monetary authorities have recourse, as a first step, to lowering interest rates as a means to spur economic recovery. In the wake of the 2008 Global Financial Crisis, the falling interest rates urged conservative investors to seek higher returns than those offered by term deposits while limiting their exposure.
Capital protected funds provide a credible portfolio solution in an inflationary environment:
When interest rate is rising, term deposits will grant safety and steady returns for risk-averse investors. Yet, there is a threat that these investments could be eroded by inflation, especially in emerging countries where inflation is generally high. Though interest rates could rise to high levels, they are unlikely to surpass the inflation rate, leading to negative real returns on deposits. Equity is recommended to alleviate some of the inflation impact. However, given the persistent volatility in stock markets, capital protected funds offer the possibility to enjoy equity growth while limiting the exposure to volatility and consequently provide a good investment option in inflationary times.

Characteristics of capital protected funds’ returns: Returns gained from capital protected funds can approximate those of the underlying markets while limiting the downside risks. Some funds even engage themselves to outperform the stock markets they track. There are also managers who propose to optimize the performance of a protected fund on the maturity date by acting on (lowering) the starting value after it is launched. It is achieved through the “Lookback” formula, which ultimately offers attractive buy-in opportunities. In addition to capital protection, a fund could suggest other features like potential for distributions or a guaranteed minimum rate of returns.

Capital protected funds are used to explore emerging markets: While protected funds were used to look for growth potential in traditional stock markets, they are showing a growing appetite for emerging markets and commodities. For instance, iron, ore and coal could achieve long term value in the wake of the industrial revolution occurring in India and China. Though promising, such investments remain exposed to the downside risks of these new markets. Thanks to capital protected funds, wary investors secure their capital while taking exposure to the emerging markets.

Capital protected funds are particularly suitable for retirees and pre-retirees: Those who are approaching retirement have all the interest to protect the value of their hard-earned savings from any erosion. Capital protected funds could serve this purpose as long they are perfectly aligned with the retirees’ investment profile and hence with their portfolio asset allocation. For example, a protected fund that places the bulk of its investments in fixed income securities is at the end, similar to a bond fund with useless additional protection costs. This situation does not serve the interest of retirees who ultimately seek certain gains, when markets allow it. In the aftermath of the 2008 Global Financial Crisis, many retirees and pre-retirees suffered large hits to their capital and many had to reduce their lifestyle expectations or work longer to offset their losses. For an effective protection, individuals need to lock-in the value of their assets years before the retirement point. Only then they would be considerably immune against future crises.

Leveraged capital protected products appeal to young investors: Borrowing to invest in capital protected products is a practice that has been dominating the Australian market since 2004, though it is less popular in Europe. Geared capital protection suits those in their 20s or 30s with good cash flow but few assets. In 2006, the total size of such funds was over $1 billion and this
escalating trend continued with over $2 billion invested in June 2007. Before offering such a feature, advisors should assess how the combination of capital protection structure and gearing could affect the risk/return profile of the client’s underlying investment. The returns perceived by the investors will be altered by a number of factors including:

• The capital protection technique;
• The return of the underlying investment;
• The fees of the structure, both implicit and explicit;
• The cost of lending and,
• The tax-effectiveness of the combined product and lending package.

**Tax effectiveness:** As mentioned in the previous point, if combined with a lending package, Australian capital protected products could benefit from tax advantages. In India, for instance, capital protected funds provide a tax efficient solution. If held for more than a year, the investor will pay 10% tax without indexation and 20% with indexation, while term deposits are taxed 30%.
III. Historical background

Capital protected products have evolved over time. They mirror the development of the instruments available to manufacturers and they adapt to events that marked the market place. From nothing more exotic than a ‘Bond and Call’ structure with protection only at maturity, product issuers have emerged from the financial crisis more responsive to clients’ needs and more flexible regarding the exit and protection options.

1. The 1987 equity market crash: Portfolio insurance Vs. Capital protection

Capital protection is different from portfolio insurance. The former came to avoid the pitfalls of the latter. In the early 1980s, specifically after the stock market crash of 1974, a new idea was born: “It’s too bad there is no way you could buy insurance on your portfolio”\(^1\). In this context, Hayne Leland, a Berkeley economist, decided that “lifestyles were in danger, and it was time for invention”. The invention was portfolio insurance, the most controversial portfolio strategy of the 1980s. It was developed using option pricing theory and the (then newly created) S&P 500 futures contract. As well documented, portfolio insurance failed to protect investors in the stock market crash of 1987. Numerous reasons explain its failure:

- Portfolio insurance is based on the assumptions that one can trade continuously and that there will be a relatively continuous market within which to trade. In other words, there would be no large price gaps between one trading price and the next.
- In portfolio insurance, the asset to be hedged and the hedging instrument were of the same nature: stock index futures were used to hedge stocks. When the equity value decreased, the portfolio insurance algorithm instructs to sell the index options. It lead to a vicious cycle that exacerbated the October 1987 crisis: the drop in the portfolio value pushed the portfolio managers to sell more futures which triggered further drops in the portfolio value, then a massive selling of futures, and so on.
- Portfolio insurance needs a very liquid market for the hedging instruments (for instance S&P futures). In times of stress, liquidity becomes a hard task and so does the ability to hedge.

To mitigate the above mentioned risks, capital protection employs a hedging instrument that is decoupled from the protected asset. The older generation of capital protected products involved bonds and call options on indices or stocks. Fund managers will invest in bonds so that the investor’s capital would grow over time and cover the cost of options, and the options will be used to capture any market growth. The bonds used as a hedging instrument should be as liquid as possible, for example T-Bills; which are more liquid than stock futures, especially during a crisis. This decoupled hedge is essential to avoid the positive feedback loop and liquidity problems posed by portfolio insurance.\(^2\) The issue with the bond and call structure is that capital will be locked until the maturity date, the only date at which capital can be protected.

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\(^2\) Principal Protection – A Portfolio Protection Strategy, White Paper, Horizon Investment LLC, page 1 http://www.horizoninvestments.com/academic-research.php,
In the U.S., capital protected funds languished in obscurity during the internet stock bubble of the 1990s. However, in the wake of the prolonged recession in equity markets, the demand for these types of fund climbed. Europe, however, embraced capital protected funds massively since mid-1990s.¹

As interest rates were reduced to low levels, only a small portion of money was left for the income-generating component, meaning call options, which caused the option-based strategy to be no longer attractive as before. The Constant Proportion Portfolio Insurance (CPPI) strategy provides an alternative protection strategy, and is particularly applicable for open-ended funds.

2. The second generation of Capital Protected Funds

The second version of capital protection is based on a dynamic trading strategy called Constant Proportion Portfolio Insurance “CPPI”. The CPPI structure also respects the decoupled hedging principle: the investors’ capital is injected in risky assets to capture any potential growth and in riskless assets (such as cash or zero coupon bonds) used as hedging instruments. There are triggers that signal to the manager when to move into cash in stress times. Whereas the Bond and Call structure is generally used to give investors capital protection on indices or equities, CPPI is intended to protect a broader type of risky assets, namely open-ended managed funds. Typically, CPPI is recommended in a strong growth and low volatility market². Yet, the common issues of these two capital protection products³ are:

- Break costs are imposed on early withdrawals before the maturity date.
- Capital Protection is not enforced unless the investments are locked until the maturity date.

The mood has shifted against CPPI after the 2008 Global Financial Crisis, when a number of protected funds became cash locked. As markets fall, CPPI must sell out equity and move towards cash and zero coupon bonds. Ultimately, investors found themselves stuck with expensive cash funds (due to protection costs) that were not due to mature for many years. Furthermore, those who were not fully aware of the cash-lock repercussions sold out their shares early and assumed the capital loss. However, the worst scenario was that of investors who took loans to invest in CPPI protected funds. They could have been left paying interests higher than those perceived from the cash placements, with nothing to show at the end of the fund term.⁴

³ Meaning Bond + Call and CPPI
3. Change in the landscape of capital protected products after the Global Financial Crisis

The capital protected investment sector has emerged from the financial crisis alive but transformed\(^\text{1}\). The financial ravages hurt a considerable number of investors, but they certainly served as a harsh lesson for retirees and pre-retirees about the importance of downside risk protection.

**The financial crisis gave a new pulse to the capital protected products industry:** The demand for capital protected funds was at its peak when the crisis hit the hardest. Now, more than four years after the outbreak of the crisis, some investors are starting to go back to risky products, yet many are still proceeding with caution. According to a survey conducted by the British Investment Management Association in 2009, 68% of investors still want to go for capital protected products which fuel the demand for capital protection\(^\text{2}\). The British company Structured Retail Products (SRP), says in its seventh annual conference held in 2010 that (post-crisis) market conditions are favoring the proliferation of capital protected products. Globally, in 2010, 40% of the sales of the structured products or more are capital protected, SRP statistics show\(^\text{3}\). The appetite for capital protection is building up again, thanks to the innovative protection and the consumer sensitive features brought about after the Global Financial Crisis.

**The industry has learnt some valuable lessons over the financial crisis years:** The financial downturn shed light on the imperfections of the older capital protected products. The “bond and call” structures needed a long term maturity- 7 years or more- where capital protection is not effective until that maturity date. Besides, early withdrawals were penalized with redemption fees. CPPI was also disgraced post-crisis. This was because investors were left locked in expensive cash investments and, similar to the “bond & call”, they imposed an additional cost on early exits. These issues encouraged product developers to come up with more flexible, more transparent and more consumer-centric alternatives.

**The third generation of capital protected products:** Capital protected funds have evolved post-crisis. Not only they are responding to the issues posed by the former versions, they are also proposing creative features.

1. They address the “cash-lock” constraint by giving investors the benefits of entry and exit timing flexibility and partial or whole withdrawals without incurring redemption costs. In fact, from the outside they tend to look similar to the other open-ended unit trusts. Some funds accept the exit choice even if they have been totally invested in cash due to falling asset values but they offer to switch into another product that has exposure to markets. This allows the investors to benefit from the upside.
2. The new products offer the possibility of turning the protection on and off whenever the client wants.
3. As compared with the former versions of capital protected products, maturity lengths have been shortened considerably. Instead of seven years or more tenure, the third generation products now propose two to three years investment terms.
4. The fees inherent in capital protection are more explicit and the payoff profile is becoming simpler and transparent.
5. The fierce competition in the capital protected market has put a downward pressure on prices, which brought down the cost of protection significantly.

\(^{3}\) Ibid
6. Product developers have been innovative in proposing geared and non-geared products, especially in Australia. The second category implies a number of advantages, namely gaining a tax benefit by prepaying interest on geared products.

The third generation of capital protected products is based on dynamic hedging and require that investors pay an explicit fee for the protection, similar to an insurance policy. In return, the provider has to carry the risk and hedge it out. Though the new products brought revolutionary features to the capital protection industry, they can actually complement the CPPI structure, depending on market outlooks. CPPI outperforms in a less volatile and stronger growth environment while the latter version is suitable for a highly volatile and subdued growth market.

The suitability of the new capital protected products for retirees and pre-retirees: The financial crisis proved the value of capital protection for this highly risk-averse market segment. Besides, retirees and pre-retirees cannot afford to wait for long-term recovery as they need to receive investment return periodically. Apart from capital preservation, the new products are flexible about total or partial withdrawal, which is very important during market turbulences. However, the greater added value is the certainty over investors’ annual income payments and the neutralization of the longevity risk. Ultimately, the goal of this particular segment is income preservation, not capital protection per se. They have to maintain a certain lifestyle after the retirement; hence the fear is to outlive the accumulated savings which is the “longevity risk”. Income protection could be achieved by locking capital gains before maturity. It can be combined with look-back options, where the shares of the fund can be redeemed at the highest level price recorded. Some issuers have taken the concept even further; they offer retirees protected income for life. In addition to the dynamic hedging process, they have included an insurance contract to hedge out longevity risk. The product is an allocated pension that gives rise to deferred lifetime annuity, which begins when the pension assets are exhausted.

The discussion above traces evolution of capital protection products in conventional industry, and explains the factors that triggered each generation of these products. As the core difference between capital protected funds is protection techniques, we will be building on the basic structures that actually mirror the three milestones mentioned earlier.

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1 Ibid, Page 10, 11, 12 and 18.
IV. Protection Techniques

With the growing number of capital protected funds that are launched in the market, understanding the difference between the products might seem a hard task. Yet, capital protection is structured around three basic techniques; the rest is simply derived from them. These are Bond & Call structure, CPPI and Dynamic Hedging.

1. 1st generation: Bond and Call option

As explained earlier, the ‘Bond and Call option’ structure was one of the first techniques deployed to provide capital protection. There are different variations on the “Call option” element but the principle remains unchanged. Essentially, the capital invested is split into two parts:

1. The Bond component: A safe asset that provides the protected amount at maturity, for example term deposits or fixed interest bonds. In case of Islamic funds, the safe asset would be a Murabaha or Ijarah asset.

2. The call option component: A call option or an equity based investment like futures that could generate potential returns. In case of Islamic funds, this could be done through Bai al-Urboun, or Bai bi-Khiyar al-Shart.

A portion of the contribution is invested in the Bond component, while the remaining is put into call options to provide the returns that the investor would have had if he had invested in the underlying equities. It is the price of the bonds that dictates the amount left over for the option which in turn dictates the exposure level to the underlying assets.

Since the cost of the ‘Bonds and Call options’ depends on the market pricing on the date of issue, it is common to see a range of participation level quoted in the documentation of the protected funds, rather than a defined participation rate. Usually for this particular structure, the level of participation in gains of underlying investments ranges between 100%-150%. The participation rate is determined by the following formula:

\[
\text{Participation Rate} = \frac{\text{Principal} - \text{Price of safe asset}}{\text{Option price}}
\]

2 Ibid.
Pros & Cons of the Bond & Call technique:

The Bond & Call technique has the advantage of being tested for a long time; it was widely used after the 1987 equity market crash. The concept is relatively simple. However, investors have a limited choice in terms of assets they can purchase options on. They are generally restricted to indices, stocks or sector performance. And they are unable to have exposure to a managed fund as the performance could be manipulated by the manager for his own benefit (in case he purchases an option on his own fund).1

Further, the investor is exposed to the counterparty risk associated with the option seller, and the credit risk of the safe asset component. Should the counterparties fail to meet their obligations, the capital protection fails, and the investor might not receive back his full investment.2

2. 2nd generation: Constant Proportion Portfolio Insurance (CPPI)

In simple terms, Constant Proportion Portfolio Insurance (CPPI) is a trading strategy that dynamically moves the investor in and out of the stock market as it rises or falls. It means that:

- If the market rises, more money is switched into equities.
- If the market drops, more money is switched into cash or safe assets.

![Figure 2: Constant Proportion Portfolio Insurance](https://www.fundsfocus.com.au)

Technically, the CPPI consists of managing a dynamic portfolio such that its value is always above a predefined “Protection (or Bond) Floor”, which is the protected value. The percentage allocated to risky assets (e.g. equities) and to safe assets (e.g. fixed income securities) depends on the “cushion value” above the floor, defined as (current portfolio value – floor value), and a “multiplier” coefficient.

The principle is simple. Part of the capital is invested in risky assets, and the remainder is placed in safe assets.

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2 Camilla Rosenkilde (2010) “Capital Protected Funds,” Aarhus School of Business, Aarhus University, p. 11.
Multiplier

The value of the multiplier ($m$) is based on the investor’s risk profile. It is derived from the maximum one-day loss tolerated on the risky investment. The multiplier is the inverse of that percentage. So, if one decides that 20% is the maximum “crash” possibility, the multiplier value will be $(1/0.20)$, or 5. There are three special cases with regards to the value of multiplier:

1. If $m>1$, the strategy is the constant-proportion portfolio insurance strategy (CPPI).
2. If $m=1$, floor= value of bills; this strategy becomes the buy-and-hold strategy.
3. If $0<m<1$, floor= 0; this is the constant-mix strategy.

Rebalancing

As the portfolio value changes over time, the investor will rebalance according to the same strategy (the desired multiplier and floor). By managing the fund this way, the product can have an in-built safety feature to ensure a minimum protected value on the maturity date. Ideally, the cushion value will grow over time, allowing for more money to flow into the risky asset. If, however, the cushion drops, the investor may need to save assets, like term deposits to ensure a certain value at the end of the term.

Pros & Cons of the CPPI technique

Compared to the Bond & Call technique, the CPPI offers protection on a wide variety of assets, like managed funds. The CPPI could be used to lock-in the profits by increasing the value of the “floor” as the fund increases in value. Some CPPI managers offer a kind of guarantee if they produce less than the targeted return, although some require a put option fee as insurance.

However, CPPI has an implicit protection cost; it stipulates to sell stocks as they fall and buy them as they rise in value. Besides, the strategy underperforms in sluggish or volatile markets. As they move totally into cash; they remain locked-in for the rest of the term and they won’t be able participate in any market recovery.

Post-crisis modifications in CPPI

To cope with the “Cash Lockout” feature, some product developers rethought the CPPI concept and combined it with the investment sequence applied in the Bond & Call structure. More explicitly, the revised CPPI works as follow:

1. For example buying a zero coupon bond with maturity in $x$ years and a face value of the protected amount.
2. The investors can then add a risky asset, such as equity, to benefit from extra return.
3. Investors can still dynamically trade the portfolio moving from risky assets to safe placement in event of high volatility or price drops.

3. 3rd generation: Dynamic Hedging

Dynamic Hedging protection technique has been introduced as an alternative to the traditional structures that showed their limitations during the financial crisis. From the investor’s perspective, the product operates as an insurance premium (for example 2% p.a) whereby the provider offers capital protection in exchange of an annual percentage fee. The term Dynamic Hedging relates to how the provider hedges the risks he takes on.

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Typically, this technique is considered as an alternative to CPPI in protecting managed funds. Since it is impossible to buy options on managed funds, the product provider using this technique proposes the managed funds that correlate to an index. It enables them to purchase derivatives on that index as a way of hedging the risks, hence the name. As the provider receives an insurance premium fee, he is the one to be exposed to any deficit.

**Pros & Cons of Dynamic Hedging**

The reproach made to CPPI is selling equities at prices lower than the ones at which they are purchased when the market rises. Dynamic Hedging allows investors to participate 100% in the market recovery since the product issuer will never disinvest. But the investment choice is limited as compared to the CPPI. The income generating assets should always be correlated to the performance of indices or shares that can be used for their own hedging.

Though they are relatively expensive, these products have the benefits of explicit protection costs, higher participation in the upside, the ability to exit at any time without incurring redemption fees and the flexibility to switch the protection on and off.

4. **Put options as an additional protection layer**

Put options relate to Portfolio Insurance rather than Capital Protection. As explained in the “Historical Background,” it has been associated with the stock market crash of 1987. Besides, the increasing volatility in recent years has led to higher costs of put option costs.

Yet, some protected fund managers use them as a second protection layer for additional safety. Alongside many CPPI products, put options enable the manager to cover any potential shortfall of not being able to sell at the anticipated trigger point.

5. **Products and protection mechanisms – Which ones to choose?**

The basic rule for choosing the right protection technique is to look at the type of assets the product is having exposure to. While the CPPI could be used for any type of assets, Dynamic Hedging is restricted to the investments that could be linked to the performance of indices/stocks, while the Bond & Call Structure can only be used with stocks and indices.

To compare the three main protection techniques, the following elements are noteworthy:

<table>
<thead>
<tr>
<th>Bond &amp; Call</th>
<th>CPPI</th>
<th>Dynamic Hedging</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Performance is based on</strong></td>
<td>Index</td>
<td>Any asset including managed funds</td>
</tr>
<tr>
<td><strong>Level of participation in gains of underlying investment</strong></td>
<td>100% to 150% depending on bond and call options prices level</td>
<td>Disinvestment with falls or volatility in the market: less than 100% participation</td>
</tr>
</tbody>
</table>

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Cost of protection

Much of the cost is implicit. Higher participation rates typically mean this will be higher than that of CPPI.

Much of the cost is implicit because of price differential: Selling low and buying high. Lower participation rates mean that the cost is lower than that of Bond &Call or dynamic hedging.

Explicit costing can make this look relatively expensive. Actually, it should cost somewhere between CPPI and Bond & Call.

Ability to turn protection On/Off

No. It is an in-built protection that takes effect at maturity.

No. It is an in-built protection that takes effect at maturity.

Yes

Possibility of early withdrawals

Implies redemption fees and foregoing the capital protection

Implies redemption fees and foregoing the capital protection

Yes, without penalties.

Source: www.fundsfocus.com.au

Table 1: Comparison of the 3 main protection techniques

Capital protection can stem either from portfolio structure (CPPI or Bond & Call), from an explicit insurance (Dynamic Hedging), or from the combination of the two, at which product issuers can add put options as an extra safety measure. Sometimes though, the protection could be achieved through merely a conservative investment strategy: investing in safe fixed-income securities.

V. Capital protected funds: Potential Pitfalls

Clearly there are advantages of capital protected products. They offer the ability to take exposure to the upside, while protecting the initial capital from any potential downside. Yet, they are still viewed with some skepticism. Some concerns are highlighted as follows.

1. Do protected funds have any added value?

Capital protected funds’ detractors argue that for an investment of 5-10 year tenure, the probability of a negative return on the stock market is relatively low. They back their position with the worst market historical performance.

Since 1970, the share market has never recorded a negative 10-year total return; the worst 10-year annualized return has been around 5%. For investment tenure of 5 years, investors would have scored some gains except in the early 1970s or, if they were unlucky enough to lock up their money right before the 1987 stock market crash. In the latter case, the annualized loss in the 5 years to September 1992 was as small as 0.9%.

Critics further argue that there is no reason to have a recourse to capital protection, even if the equity market has performed poorly during the years after the Global Financial Crisis. Due to what economists call “regression to the mean”, the market is expected to bounce back and produce decent returns in the years to come. The theory stipulates that if the market records a below average returns for a number of years, it is likely to witness a period of above average return soon.¹

2. Inflation impact

The interest rates proposed by term deposits cannot be high enough to absorb the inflation effect. Capital protected funds, by taking part of market growth, could hit higher returns

¹ Ibid.
than fixed income rates and probably higher than the inflation rate itself. But some do not exclude the possibility that inflation could still have an impact on these products in another way.

Capital protected funds promise to return the initial investment or a certain percentage of it at the end of the term, but most of them do not make any adjustment to reflect changes in inflation. For instance, if a person invests $100,000 today for 5 years then, assuming that the inflation rate is of 3% p.a., he or she should get back at least $115,927.41 at the end of the term to ensure that his capital is indeed protected, even from inflation.¹

3. Benefits and costs of capital protection

Generally, capital protected products are more expensive than a simpler investment because of the extra costs of providing a protection. These depend primarily on three elements: the type of assets, the fund’s tenure, market volatility and the amount being protected. For instance,

1. The cost is greater for an underlying investment with a high proportion of growth assets than it is for investments with a lower level of growth assets.
2. It is more expensive to provide protection when market volatility rises than it is when the volatility lowers.
3. It is much cheaper to purchase protection against a managed fund for a five-year term than a volatile midcap stock for a one year term.

Consequently, many recommend weighing the costs against the benefits before getting into such products. As an example, the protection could be justified for a short term period, where markets go up and down while it is not regarded as necessary in a long-term tenure as the risk of decline is much lower.²

4. Opportunity cost

Capital protection may involve an opportunity cost in various scenarios. The first illustration is that of conservative protected funds where fixed-income securities are likely to underperform growth investments, especially in a bullish market. Under this scenario, the investor will miss out on the potential upside in his portfolio.³

Some capital protected funds limit the level of returns you are entitled to if the investment is flourishing. Say that the fund’s management caps the overall cumulative return at 70%, this in fact gives less than 8% return p.a. if the tenure is 7 years. Supposing the markets record a higher growth, the investors locked within such products will find themselves deprived of the extra returns.⁴

Another situation is that of a “Cash Lockout” feature found in old generation capital protected funds, which are still marketed, years after the financial crisis. As pointed out earlier, these funds are for a set term and if one is willing to withdraw partially or fully, the capital protection will not be in force. Besides, investors could be exposed to early exit penalties. Finally, in times of a downturn, investors remain stuck in Bond & Call products or in cash investments when CPPI is used, watching opportunities just passing by.

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¹ “Get the facts: Capital guaranteed or protected investments”, Australian Securities and Investments Commission
² Ibid, page 3
³ Funds Focus, Guide to Capital Protected Products, page 15
⁴ “Get the facts: Capital guaranteed or protected investments”, October 2010, page 3
5. Replacing downside risk with counterparty risk

The industry players fixate on cost issues, when the quality of the counterparty providing the capital protection is equally important. In fact, protected products remove part of the downside risk and replace it with a counterparty risk.

One should first scrutinize the documentation of the protected fund and try to assess the counterparty risk by looking at the following elements:

1. Which company is actually liable for providing the capital protection? Usually, the product is issued by one company and the underlying protection is provided by another.
2. If the protection provider has a parent company or is part of a group, are the liabilities guaranteed by the parent company or another company in the group? Otherwise, the financial situation of this particular provider should be scrutinized, not the parent company or the group as a whole.
3. The investor should emphasize on the stability of the company which actually provides the protection by duly looking at the legal structure, the credit rating and assessing the strength of the balance sheet.
4. Whether there is any event at which the protection would cease to apply (if the protection provider becomes insolvent)? Are there any circumstances in which one can withdraw the protection?
5. Supposing something goes wrong, how does the product issuer expect to meet his obligation to the investors? Are there assets or any other means that could be used? Are investors secured or unsecured creditors?

Apart from the financial stability and the legal structure, there is another metric that should be considered while estimating the counterparty risk: how do the protection providers and the product issuers react to market stress. An important lesson of the crisis is the ability of issuers to change almost all terms and conditions. The reactions to the downturn differed, some issuers were accommodating to the environment, while others were acting in favor of their shareholders leaving the investors without any capital protection, which sometimes went through changes in the investment terms. One should realize that the same scenario could be replicated in the next crisis. Hence, it is an urgent need to evaluate the global crisis damages and to establish a list of the issuers who honored their duties towards their investors from those who did not.

6. One capital protected product does not fit all

Before deciding whether capital protected products are indeed suitable, investors need to take some time to identify what is suitable to them. They should first realize that there is a compromise between investment safety and missing out on market opportunities plus the high costs associated with capital protection. There is also an element of timing: whether it is the right time for the client and the right strategy; because having capital protection all the time can be very expensive.

Only then can the investors undertake the second step and prioritize the product features that suit them the best. The choice will depend on the client’s objectives, where some are concerned with maximizing the total returns of their portfolio, others place more importance
on the security of their investments and the incomes. In the latter case, the cautious investor can be ready to pay higher fees in order to achieve peace of mind. For instance, retirees who have a fear of outliving their savings may be willing to forego their returns to ensure that the longevity risk is transferred to a credible institution. In short, each objective may give shape to a different capital protected product the features of which are especially tailored to the client.

In section V of chapter IV, we compared the three main protection techniques in light of their distinctive features. The following is a checklist that provides a wider range of parameters to be considered when weighing capital protection products that could suit an investor:¹
Term of the investment:
The fund’s tenure should match the client’s investment timeline. If redemption (either partial or total) is not allowed, it should be considered in case of unexpected expenses or liquidity requirements.

Underlying investments:
The underlying investments provide an indication of the risk of the portfolio used for capital protection.

Choice of investments:
If there is a restriction on the investments choice, there would be less flexibility in adapting the portfolio to suit investors’ objectives and risk profile.

Potential for capital growth:
The investor has to identify whether there is exposure to financial or real assets that may provide the potential for capital growth.

The potential for income growth is also crucial. Income returns that are indexed to inflation or have the potential to grow at least at the same pace with inflation, will allow investors to secure an income level that grows overtime to meet higher living expenses. This is particularly true in a long-term investment horizon where rising living expenses may eat away the investment incomes even if they are protected.

Guaranteed income:
The investor should consider whether the investment offer a guaranteed return on capital. The level of the guaranteed income paid—particularly when compared against defensive assets (e.g. cash) will determine the attractiveness of the investment.

Strength of the guarantee:
Recognize how, by whom or whether the guarantee is backed. Some product providers may set aside sufficient assets in a separate fund, for example a statutory fund, to support the protection.

Possibility of withdrawal:
This has an impact on portfolio liquidity especially if redemptions are not allowed.

Protection fees:
Capital protection consists of transferring some of the investor’s risk to the protection provider. The protection provider imposes a fee for accepting these risks, or as a compensation for the costs of hedging out the risks. The fees should be carefully assessed to determine whether the costs are reasonable.

Opportunity costs:
The investor should understand and accept to miss out markets’ upside for the sake of having capital protection.
VI. Main findings of the survey

1. Europe

a. A leading market for capital protected funds

Capital protected funds have been popular in Europe since the mid-1990s as a result of successive events that eventually paved the way for their advent. Thanks to the efforts invested by the European monetary authorities in fighting inflation and reducing public deficit, the interest rates steadily dropped-off as compared to their levels during the 1980s. Those who were completely into traditional bonds were looking for new alternatives as their returns were steadily diminishing. The bullish years of equity markets during the 1990s triggered a vivid interest in long-term investment in stocks. However, it soon vanished when the downturn hit, especially after the dot-com bubble burst in the 2000s. Capital protected funds offered a good investment alternative, especially to investors who were in their beginnings in the financial markets and still needed to learn the game. These products offered them the opportunity to learn how to keep track of the markets and exposed them to risks, not only the potential returns, related to equity, while ensuring a certain level of capital preservation.¹

Driven by a conservative investment culture in many countries and due to low interest rate environments, Europe became a leading market for these products. €146 billion was invested in 2,321 capital protected funds across Europe as of March 2003. On average, the capital protected value per fund in Europe is €62.9 million. Approximately, 5% of funds sold in European markets offer capital protection². France and Spain hold the majority of funds as the two leading markets for capital protected funds³. However, some major European countries have relatively small market for capital protected funds, like UK, Germany and Italy.

France

The largest market for capital protected funds in Europe is France with 831 funds and an investment size of €48.7bn as of March 2003. While the country has a developed capital protected funds industry, the total assets proportion of these products is relatively small with only 5.9%⁴.

Compared to other European countries, France benefits from a favorable regulatory environment with regards to Capital protected funds. Nevertheless, fund managers have to comply with a set of requirements for the sake of protecting investors’ interests. For instance, they must ensure the customer’s understanding of the product, the formulas should be shown in mathematical terms and different scenarios should be clearly presented as well as the pros and cons of the product. A bank has to offer a guarantee on the protected part of the funds and some regulations further require that the products should be structured at a fair price and that they must offer a fair value in case of early redemptions.

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³ Belgium is a leading country as well, but “The European Savings and Investment Outlook” report does not take it in consideration.
⁴ The European Savings and Investment Outlook, page 81.
Besides, advantageous tax treatments are available for these funds, which contribute to their rapid development.¹

**Figure 3: Number of Capital Protected Funds by country, March 2003**

Spain

Spain is the second largest market in Europe with €40.6 billion invested and 602 capital protected funds. Spain has a high portion of total fund assets invested in these particular products with 21% as of March 2003. The majority of Spanish protected funds are structured outside the country by major banks such as KBC, BNP Paribas and Goldman Sachs.

Despite the tremendous growth of capital protected funds market in Spain, no specific regulation has been developed so far.²

Germany

Germany counted 46 protected funds with an investment size of €7,158 million as of March 2003. Their average fund value is €155.6 million which is one of the largest capital protected values in Europe. Yet, these funds make up only 0.6% of total funds market in Germany. Regulation had a great role to play in this situation.

It should be noted that new amendments have been made to the regulation and these are expected to boost capital protected funds industry. Moreover, the increasing pension market will help the sector to expand as a large proportion of the products are sold for retirement provisions.³

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¹ Ibid, page 83.  
² Ibid, page 86.  
³ The European Savings and Investment Outlook, page 84
UK

There are a small numbers of capital protected funds in UK and only €713 million is invested in this asset class as of March 2003. This is principally due to regulatory pressures, developed equity culture and to some extent the large market for life insurance “with profits” policies which dominate the market for investment protecting the initial capital.¹

However, the situation has considerably changed since then. Four out of five UK financial advisers see capital protection as one of the building blocks of a sensibly diversified portfolio and regularly recommend these types of products².

According to the European Savings and Investment Outlook (2011), German and UK capital protected funds markets will grow at fairly rapid pace from their current low basis.

b. Survey’s interpretation

The survey’s results seem to be in line with the above mentioned figures. The pre-selection was not an easy task as we encountered a large number of highly performing funds; this is without mentioning those with a low rating. Additionally, while browsing across capital protected funds prospectuses, we noticed that the documents are fairly detailed and that everything is put in place to make the terms and conditions as understandable as possible: namely the formulas, subscription and redemption conditions, tax benefits, gains distribution if any and so forth. This led us to think that the protected funds market should be important, the industry has reached a certain level of sophistication, and that the regulation has been sufficiently developed to impose transparency requirements and to look after investors’ interests.

Pertaining to the value of protected funds³, the highest fund size achieved in Europe Pre-selection is that of “Scottish Widows Capital Protected 10”, a UK fund, with $358.657 million in terms of net assets. It is the only European fund that has outperformed inflation⁴. 16 funds –around half of the funds– have Total Net Assets comprised between $50 million and $10 million. The lowest value was recorded by the Belgium “Fortis B Fix 2008 Lookback 02” fund with $2.8 million net assets. Although funds of different sizes were found within this sample of protected funds in Europe, the average fund value is estimated at $61 million, which is relatively significant.

<table>
<thead>
<tr>
<th></th>
<th>Number of pre-selected funds</th>
<th>Total NAV ($ Million)</th>
<th>Average NAV ($ Million)</th>
<th>Median ($ Million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>UK</td>
<td>7</td>
<td>650.46</td>
<td>92.92</td>
<td>29.12</td>
</tr>
<tr>
<td>Switzerland</td>
<td>1</td>
<td>14.39</td>
<td>14.39</td>
<td>14.39</td>
</tr>
<tr>
<td>France</td>
<td>7</td>
<td>650.76</td>
<td>92.97</td>
<td>23.05</td>
</tr>
<tr>
<td>Belgium</td>
<td>7</td>
<td>103.27</td>
<td>14.75</td>
<td>11.15</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>7</td>
<td>98.22</td>
<td>14.03</td>
<td>12.78</td>
</tr>
<tr>
<td>Germany</td>
<td>1</td>
<td>313.46</td>
<td>313.46</td>
<td>313.46</td>
</tr>
</tbody>
</table>

Table 2: Europe Pre-selected funds’ aggregation (29th February 2012)⁵

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¹ Ibid, page 86
² “Capital Protection key to UK advisers, says Skandia survey”, StructuredRetailProducts.com, 20 December 2006.
³ The Total Net Assets of all protected funds listed within this survey have been converted to US dollar based on its average value of March 2011. For further details please refer to Annex 5.
⁴ Inflation rates were obtained from the World Development Indicators & Global Development Finance Database, www.worldbank.org.
⁵ We refer to Table 10 (pp.44-45) for further details about the pre-selected funds. Data are for February 29, 2012.
UK Switzerland France Belgium Luxembourg Germany

<table>
<thead>
<tr>
<th></th>
<th>EUR Million</th>
</tr>
</thead>
<tbody>
<tr>
<td>NAV Average</td>
<td>92.92</td>
</tr>
<tr>
<td>NAV Median</td>
<td>29.12</td>
</tr>
<tr>
<td>Number of Funds</td>
<td>7</td>
</tr>
</tbody>
</table>

A value of “0” means that the information was not available at the time of data collection.

**Figure 4: Europe Pre-selected funds’ aggregation (29th February 2012)**

With reference to the final selection (page 46), 5/10 of the surveyed funds are listed and 8/10 are open-ended. And when the subscription/redemption frequency is available it does not give away much: subscriptions could surpass redemption and vice versa, depending on the funds.

The three protection techniques are equally present in this selection: the Bond & Call Option technique, CPPI and placing the money in high investment grade debt instruments. CPPI was deployed with different variations:

- The traditional version as covered in “Protection Techniques” chapter.
- CPPI with limited downside risk. It uses a dynamic protection floor that locks the value of the shares at the highest price achieved.
- Conservative CPPI that invests the bulk of the capital in safe debt instruments (the threshold of the safe component is relatively high) and at the same time has a dynamic protection floor.

As protection techniques are globally diversified across Europe, so are the type of assets. Concerning the valuation method, the NAV is mostly calculated based on forward pricing.
2. America

This region includes the USA, Canada, Brazil, Chile, and Mexico. Protected funds are less popular in America as compared to Europe. Up to now, occasional efforts to launch this kind of funds have been met with only limited success in the USA. According to Morningstar funds analysis (2011), the concept becomes popular at times when investors seem to fear losses more than they care about returns\(^1\). Recently, they emerged early in the 2000s after the dotcom bubble burst and it is now a result of the 2008 crisis chaos that they are coming back from the grave once again\(^2\). The reluctance towards capital protected funds could be explained by their conservatism and limited exposure to the upside in a society known by its equity culture. Besides, the cost of protection is relatively high and the lack of clarity of a protected fund’s composition makes it difficult to be used in a portfolio.

USA is not an exception in the area; in general, these funds are not as abundant as in Europe. Using the same fund screeners as the ones of Europe\(^3\), we realize that the number of the funds’ issuers and that of the protected funds themselves is relatively limited.

<table>
<thead>
<tr>
<th>No. of Providers</th>
<th>No. of Funds*</th>
</tr>
</thead>
<tbody>
<tr>
<td>USA</td>
<td>3</td>
</tr>
<tr>
<td>Canada</td>
<td>2</td>
</tr>
<tr>
<td>Brazil</td>
<td>5</td>
</tr>
<tr>
<td>Chile</td>
<td>1</td>
</tr>
<tr>
<td>Mexico</td>
<td>4</td>
</tr>
</tbody>
</table>

*: N/A: Not Available

*Table 3: Number of Capital Protected Funds and Funds’ Providers in America*

With respect to the sizes of the funds, the total net assets of Mexican funds are striking. The largest value in the pre-selection sample is that of “TRIPLE1 GB BBVA Bancomer” with $306.03 M (March 31, 2012). On average, the size of the preselected Mexican capital protected fund is the highest in America with $139.30 M. Actually, BBVA Bancomer and Santander Serfin are the leading banks in Mexico where they are ranked 2\(^{nd}\) and 3\(^{rd}\) with total assets of $84 B and $44 B respectively\(^4\). Surprisingly, Brazil came right after US capital protected funds with an average size of $52.29 M against $66.49 M in USA. Canada lags behind with a mean value of $6.82 M in total net assets, according to the data gathered in the pre-selection.

<table>
<thead>
<tr>
<th>Number of pre-</th>
<th>Total NAV ($ Million)</th>
<th>Average NAV ($ Million)</th>
<th>Median ($ Million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>selected funds</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>USA</td>
<td>19</td>
<td>1274.07</td>
<td>84.94</td>
</tr>
<tr>
<td>Canada</td>
<td>9</td>
<td>50.53</td>
<td>5.61</td>
</tr>
<tr>
<td>Brazil</td>
<td>10</td>
<td>361.64</td>
<td>36.16</td>
</tr>
<tr>
<td>Chile</td>
<td>3</td>
<td>77.85</td>
<td>25.95</td>
</tr>
<tr>
<td>Mexico</td>
<td>4</td>
<td>710.52</td>
<td>177.63</td>
</tr>
</tbody>
</table>

*Table 4: America Pre-selected funds aggregation (February 29, 2012: March 31, 2012)*


\(^2\) Ibid

\(^3\) Lipper and Morningstar, except for Mexico


*We refer to Table 13 (pp.77-78) for further details about the pre-selected funds. Data are of different date: between February 29, 2012 and March 31, 2012.*
Globally, the average capital protected fund size in America is estimated at $60.36 M. It largely benefits from the performance of the banks that stand behind Latin American funds. The mean value of the North American funds (USA and Canada) does not exceed $44.78 M while that of Latin America (Brazil, Mexico and Chile) is of $65.05 M. Notably, the global financial institutions that manage most of the preselected Latin American protected funds are looking at their operations in this specific region for growth prospect. As a matter of fact, financial activities in Latin America emerged largely intact from the global crisis thanks to the resilience of the banking system known for conservative balance sheets and solid reserves.

All three protection techniques were utilized in the region, with some variations. For CPPI, there is the traditional version of it, conservative CPPI with a large portfolio portion invested in debt instruments and CPPI with dynamic protection floor to lock the share value at the highest price achieved. The Bond &Call Option also exists in its traditional form, but in one occasion it was combined with dynamic asset allocation where the fund can limit its exposure to derivatives and modify its portfolio composition if market conditions are not favorable. Hence, Bond &Call Option can offer the same flexibility as that of CPPI. The protection mechanisms are usually combined with a protection sub-layer that is either “a protection agreement” with a renowned bank or an insurance company, especially in US funds, or derivative instruments used for hedging purposes.
3. Asia

a. An outlook on Asian Capital Protected Funds market

Europe and Asia are the largest markets for capital protected funds. In Asia, especially, there is a large market for structured and hedge fund products, including capital protected funds. In most cases, less regimented regulation allows to market all forms of structured and capital protected products. In the following paragraphs, we elaborate more on pertinent countries either in terms of their regulatory regime or the market size of capital protected funds.

India

India, a very stringent regulatory position is adopted on this kind of products. Initially, the Security Exchange Board of India (SEBI) banned all forms of protected returns and capital schemes. In August 2006, SEBI ceded to the lobbying pressure of the Association of Mutual Funds in India and amended its mutual funds regulation enacted in 1996 by opening the market for what it called “Capital Protection Oriented Schemes”. Accordingly 23 funds were launched in 2011. Yet, the country remains firm on its regulation and subjects these products to a set of rules, as is confirmed by our survey’s results:

- The funds have to be closed-end, investors would not have any exit option before maturity and fund managers would not be entitled to repurchase units.
- The protection of capital arises from the portfolio structure of the scheme and not from any bank guarantee or insurance cover. The capital preservation is achieved by investing the majority of the portfolio in highly rated debt instruments.
- The asset management company offering such products assures the investor on the capital, not on the returns.
- Capital protected units have to be rated by a registered credit rating agency for evaluating the degree of certainty of attaining the objective related to principal protection.

Singapore

According to the 2002 Asset Management Survey conducted by the Monetary Authority of Singapore “MAS”, capital guaranteed/protected funds and balance funds were one of the most popular investment choices. Notably, the number of capital guaranteed/protected funds increased significantly from 39 funds to 82 funds, tripling its total assets under management (AUM) from SGD 1.8 billion (equivalent to 17% of Collective Investment Schemes “CIS” total assets) to SGD 5.4 billion (38% of CIS total assets) for the year ended 2001 and 2002 respectively. While the capital protected funds were flourishing in the years just prior the financial crisis, they contracted afterwards. As illustrated in the 2007 Asset Management Survey, the allocation to capital guaranteed / protected funds CIS declined by more than 40%.

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2 http://www.mondaq.com/article.asp?articleid=42568
Another turning point in this industry, was the decision of the financial regulator (the MAS) to ban the “capital/principal protected” term since too many investors got confused about its real meaning. This was part of the MAS response to the collapse of the Lehman-linked structured products and the controversy over the way complex financial instruments were sold to lowly educated and old people. Consequently, the regulator decided to keep the “capital guaranteed” label, meaning the investors’ principal is fully protected, which is one of only two types of products allowed to be sold. The other category is everything else that is not capital guaranteed. Besides, some of the key changes consist of requiring financial institutions to provide clients with simple, user friendly product documentation and displaying “health warning” on complex investments in an appropriately large font. The change will make it tougher for product providers to market these investments. However, the competitiveness of Singapore as a wealth management centre would likely be not affected since the measures as a whole will safeguard investors’ interests and provide a higher level of disclosure and confidence.

Australia

While the capital protected funds market is relatively new in the Australia, the statistics provided by the Reserve Bank of Australia show that it grew to more than $2 billion as of December 31, 2009. Actually, the appetite for these products is building up again in Australia as issuers are coming back with a wider diversity of assets and using innovative protection and packaging mechanisms. This burgeoning demand coincides with diminishing market volatility and rising interest rates; both brought the capital protection costs down. Though Australian equities still dominate the market, investors are showing a growing interest in capital protected Asian equity products, particularly those venturing in China.

To date, the Australian market has been dominated by protected lending products, where retail investors borrow to invest in a capital protected fund, an approach barely seen in Europe. Investments into geared capital protected funds in Australia surpassed $1 billion during 2006 and continued their escalating trend in the first half of 2007 to hit over $2 billion in June 2007. The expansion and the difference in usage of capital protected funds compared to Europe could be due to the following factors:

- Australian lenders proposing up to 100% loan-to-value ratios against capital protected products which appeal to the wealth accumulating investors with relatively low asset base.
- High marginal tax rates that makes gearing an effective strategy for high income earners.
- Strong Australian equity market performance which makes gearing a more attractive option.

The Australian Securities and Investments Commission (ASIC) also adheres to protecting the interests of the investors and require a certain degree of transparency in the offering documents of protected funds. In a report issued in July 2010, the ASIC emphasized on user-friendly tools to explain complex products as it stressed on the disclosure of key risks, financial information of counterparties, break costs, segregation and use of clients’ money by issuers.
Capital protected funds in New Zealand follow almost the same trend as Australia, since the majority of capital protected funds is offered by Australian mother companies.

**Malaysia**

As of end-of-August 2008, the Federation of Investment Managers Malaysia (FIMM) estimated the number of capital and guaranteed trust funds in the country to be 45. Their assets under management (AUM) were worth about RM 8.1 billion which represents approximately 13% of the total AUM of all private units trust in Malaysia.

Capital protected funds in Malaysia promise to repay 100% of the initial capital and their maturity varies from 18 months up to 5 years. In most cases, the model followed is Bond & Call Option where a large portion of the capital raised is invested in Zero Coupon Negotiable Instruments Deposits (ZNIDs), which are money market instruments. ZNIDs protect the capital as they are issued at a discount and compound at a fixed interest rate to their par value (of 100%) at maturity.

To ensure a certain level of resilience and build investors’ confidence, the capital protected/guaranteed funds industry is regulated by the Securities Commission (SC). For instance, the SC guidelines require ZNIDs held to be of high grade, meaning that they are issued by local banks with a minimum rating of A from approved rating agencies. The fund manager should also diversify the risks using a portfolio of ZNIDs issued by four or five different banks. Besides, capital protected funds benefitted from an announcement made by Bank Negara Malaysia (BNM) on 17th October 2008. It stipulated that all Ringgit and Foreign currency deposits placed with financial institutions will be fully guaranteed by the government and this includes the ZNIDs which are ultimately a form of deposits. To limit the contagion effect in future crises—as the one suffered by Hong Kong and Singapore in the aftermath of the Lehman Brother collapse—and to protect the investors from any capital losses, the SC limited investments in options/derivatives with foreign counterparties to not more than 15% of the fund’s NAV.¹

### b. Survey’s interpretation

It is hard to set a clear picture on the value of capital protected funds in Asia. As a matter of fact, this information was not found for about half of the funds (29 out of 62) collected in the pre-selection sample. Hence, it becomes difficult to estimate, with a certain level of accuracy, the average fund size in the region. Besides, it is also hard to establish a cross comparison on the level of funds’ size per country. Generally speaking, the mean value as given by the pre-selection is of $44.57 million but if the fund with highest total net assets (worth $876 million) is excluded, that of the Malaysian fund “PNB Structured Investment”, the mean value will drop to $17.75 million. Roughly, we can say that the Asian protected funds on average are small as compared to the average size of Europe and North America. The size of 28 funds (out of the 32 whose Total Net Assets value is available) is under $40 million.

<table>
<thead>
<tr>
<th>Country</th>
<th>Number of pre-selected funds</th>
<th>Total NAV($ Million)</th>
<th>Average NAV($ Million)</th>
<th>Median($ Million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>New Zealand</td>
<td>6</td>
<td>11</td>
<td>5.50</td>
<td>5.50</td>
</tr>
<tr>
<td>Australia</td>
<td>10</td>
<td>72.33</td>
<td>18.08</td>
<td>18.78</td>
</tr>
<tr>
<td>Japan</td>
<td>4</td>
<td>112.73</td>
<td>37.58</td>
<td>26.89</td>
</tr>
<tr>
<td>Korea</td>
<td>2</td>
<td>1.21</td>
<td>1.21</td>
<td>1.21</td>
</tr>
<tr>
<td>Singapore</td>
<td>4</td>
<td>49.31</td>
<td>12.33</td>
<td>12.84</td>
</tr>
<tr>
<td>Malaysia</td>
<td>9</td>
<td>952.15</td>
<td>119.02</td>
<td>13.10</td>
</tr>
</tbody>
</table>

We refer to Table 16 (pp.108-109) for further details about the pre-selected funds. For the funds that have been screened using www.lipperleaders.com, the data relative to “Total net assets” is that of 30th March 2012.

<table>
<thead>
<tr>
<th>Country</th>
<th>Number of Funds</th>
<th>NAV Average</th>
<th>NAV Median</th>
<th>Number of Funds</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pakistan</td>
<td>8</td>
<td>78.56</td>
<td>15.71</td>
<td>11.80</td>
</tr>
<tr>
<td>India</td>
<td>12</td>
<td>148.94</td>
<td>29.79</td>
<td>35.28</td>
</tr>
<tr>
<td>Cina</td>
<td>6</td>
<td>--</td>
<td>--</td>
<td>--</td>
</tr>
</tbody>
</table>

Table 5: Asia Pre-selected funds aggregation (February 29, 2012: March 31, 2012)

A striking remark is the relatively young age of the funds of the final selection (page 111) and that they are actually the best performing funds we could find: 13 out of 17 funds in the final selection have been established post 2007. The capital protected products industry is new in Asia-Pacific as compared to Europe but is currently witnessing a notable expansion.

In general, the numbers of closed and open-ended funds are equally important: 10 against 6 respectively. So are the numbers of listed and unlisted funds: 7 against 10 respectively. It does not reveal any outstanding features in the region; however, certain countries have specific characteristics as we have seen in the previous sub-section “An Outlook On Asian Capital Protected Funds Market” and it will be confirmed later.

With regards to capital protection approaches, there are five main techniques, with various versions:

**CPPI**
- CPPI in its traditional version.
- In Europe and America, a conservative version of CPPI is adopted; in Asia, CPPI with a high equity exposure is applied where a minimum equity portion is imposed.

**Bond & Call Option**
- Bond & Call Option in its traditional version.
- Bond & Call option combined with dynamic investment in the underlying assets of the provided option strategy (there are several types) in order to optimize the returns.

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1 We refer to Table 16 (pp.108-109) for further details about the pre-selected funds. For the funds that have been screened using www.lipperleaders.com, the data relative to “Total net assets” is that of 30th March 2012.
• Bond & Call option combined with dynamic allocation between options and safe assets (debt securities) depending on market conditions. This strategy resembles the CPPI to some extent.

**Investing in Safe assets**

• Safe assets are often in the form of liquid money market or debt instruments with good credit rating.
• One variation is to focus on debt instruments with limited equity exposure. However, unlike conservative CPPI, the investment strategy is rather passive and the hedging approach is static. Rebalancing could be done but only in the event of extreme need.
• Another version is safe assets combined with an interest rate swap. The interest generated from the debt securities is swapped with fixed payouts provided by a given financial institution.
• Or investing in safe assets combined with a total return swap. In such a case, total returns of debt notes are swapped with a fixed payout.

**Capital protection agreement**

• Usually, the capital protection agreement is used as an additional protection layer. It is an insurance provided by a third party to the fund through which the latter is liable to repay the initial investment amount in the event of loss.
• It was also present as a standalone protection technique whereby the fund deals with an asset provider who is liable for paying returns and ensuring capital protection to the fund.

**Protection embedded in the structure of the fund’s assets**

• The fund could invest in structured products protected by means of the Bond & Call Option or REITS (Real Estate Investment Trust) securities with a buy-back option that locks the initial price.
• A case was found where the CPPI and a protection agreement are indirectly present in a sub fund in which the concerned capital protected fund invests.

Each of these protection approaches could be combined with an additional protection layer of either derivatives for hedging purposes or a third party protection agreement.
4. MENA

The investment funds industry in the MENA region is in its embryonic stage as compared to other regions and this does not exclude capital protected funds sector. Following is a brief outlook on investment funds in MENA.

a. MENA investment funds landscape

Large savings and economic prosperity have not yet resulted into a large and diversified institutional investment environment in the MENA region; especially in the GCC where investor profiles remain distinct from the rest of the world. Actually, the investors’ landscape is dominated by sovereign wealth funds, public pension funds and family businesses while Collective Investment Schemes (CIS) hold a minority of assets under management. At the end of 2009, MENA accounted for 765 privately-managed investment funds with $63 billion of total assets under management (AUM), including 308 funds with $29 billion AUM domiciled in the GCC.

Equity funds are the most dominant type in terms of number (48.16% of MENA mutual funds). Yet, the portion of listed equity held by privately-managed mutual funds does not exceed 2%, which is miniscule compared to other countries. The funds investing in short-term instruments – money market or trade finance funds – have the largest assets under management (nearly 50% of MENA funds size). The bulk of it is concentrated in Egypt, Morocco and Saudi Arabia. Fixed income funds are small everywhere in the MENA, except Morocco, reflecting the under-development of debt markets in the region. Capital guaranteed/protected funds activity is very trivial - only 1.44% of CIS funds.

MENA’s investment funds industry remains insignificant by international comparison: the ratio of mutual fund assets to GDP is also well below the levels predicted by market capitalization, which highlights the thin institutional investor base in the region. Hence, as a consequence of small holdings (compared to GDP) and a relatively large number of mutual funds in MENA, average fund sizes are found to be small.

MENA governments may need to put in more efforts to promote mutual funds development. The top priorities would be:

- Raising investors’ protection to IOSCO (International Organization of Securities Commissions) standards to cope with their reluctance to invest in investment funds.
- Broadening the asset classes and developing government securities and private instruments with varying risk-profiles to suite diverse investor preferences.
- Further improvement of capital market governance to enhance capital flows as well as encouraging the expansion of non-bank securities firms.

b. Survey’s interpretation

Knowing the MENA investment funds landscape, it is easy to understand the number of obstacles we faced during the survey. The mutual funds industry is in a nascent stage and so is the capital protected funds sector, if not worse. This explains the lack of consistent databases and

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2 According to the World Bank report (Investment Funds in MENA), investment funds hold nearly 30% of market capitalization in the US and 60% in Australia; about 39% in France; 10 – 15% in Japan, UK, Canada, and Germany; and about 8% in Brazil, page 9.
documentation regarding protected funds. Besides, most of the funds’ prospectuses or factsheets are not well elaborated, which reaffirms the need for investor’s protection mechanism.

The outcome is an incomplete picture of MENA capital protected funds. A number of funds were not considered due to the unavailability of documentation. Even for those short-listed, data was missing most of the time, for instance total net assets and subscription/redemption frequency.

<table>
<thead>
<tr>
<th>Number of pre-selected funds</th>
<th>Total NAV ($ Million)</th>
<th>Average NAV ($ Million)</th>
<th>Median ($ Million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bahrain</td>
<td>2</td>
<td>155.37</td>
<td>155.37</td>
</tr>
<tr>
<td>Qatar</td>
<td>1</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Kuwait</td>
<td>5</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Cayman</td>
<td>1</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>UAE</td>
<td>2</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Egypt</td>
<td>8</td>
<td>42.24</td>
<td>21.12</td>
</tr>
<tr>
<td>Tunisia</td>
<td>3</td>
<td>10.68</td>
<td>5.34</td>
</tr>
</tbody>
</table>

Table 6: MENA Pre-selected funds aggregation (March 2008: March 2012)

A value of “0” means that the information was not available at the time of data collection.

Figure 7: MENA pre-selected funds aggregation (March 2008: March 2012)

Apart from that, all the funds of the final selection are open-ended (6/6) and most of them are either not listed in a secondary market or there is no certitude about their listing. The funds deploy the very basic protection technique—investing in safe assets—or the traditional CPPI combined with derivatives for hedging purposes. The Bond and Call Option mechanism was not detected at all. It appears from these observations that capital protected funds market in MENA have not yet reached the level of maturity and sophistication of the other regions.

We refer to Table 19 (pp.158-159) for further details about the pre-selected funds.
Assets are either mixed due to the use of CPPI or in form of bonds. Valuation always rests on forward pricing.

5. Islamic Capital Protected Funds

a. An outlook on Islamic Capital Protected funds industry

The concept of capital protection was embraced by Islamic investors in a rush for safety after the wild behavior of Islamic stock markets, especially in the GCC region. The idea was further entrenched as Islamic funds wanted to diversify away from the mainstream assets: equity and Sukuk. Currently, HNWI (High-Net-Worth Individuals) are trying to explore new investment areas like commodities, ships and real estate. Yet, the traditional asset classes are still dominant. Out of a total of 433 Islamic Funds tracked by Morningstar for the year 2010, 172 were equity funds, 41 balanced funds, 32 fixed income funds, 21 money market funds while only 7 were capital protected, 2 hedge funds and the remaining funds were unclassified. Despite their small market share, Islamic capital protected funds are expected to expand. Safe placement gained popularity and the investors’ community is becoming cautious about where they are putting their money particularly after the global financial crisis.

Structures

It appears that most Islamic fund promoters tend to mirror the structures of conventional finance, and Islamic capital protected funds are not an exception. This is true with respect to both the form of the products as well as the investment objectives declared by the funds; though the eligible asset classes differ for Shari’ah compliance considerations.

Conventional products use high credit rating debt instruments and zero-coupon bonds to provide protection; this is not admissible in Islamic finance. The use of options either in the Bond &Call Option model or simply for hedging purposes is also problematic. Instead, most Shari’ah compliant protected funds employ two investment mechanisms to preserve the principal; Murabaha and Bai’ Al-Urboon.

Murabaha transactions, perceived as a relatively low risk investment, are structured to provide the required capital protection. The bulk of the money raised from investors by the capital protected fund is placed in a fixed term commodity trade transaction or a series of such transactions in order to generate fixed returns. Capital protection could be based solely on Murabaha instruments or they could be part of an Islamic version of the “Bond & Call” model.

For the second case, the outcome of a call option is reproduced by means of Bai’ Al-Urboon transaction. A small percentage of the initial capital is used to purchase “Islamic options” over a basket of Shari’ah compliant commodities or shares. While Bai’ Al-Urboon is intended to take exposure over these markets; the profits generated by the Murabaha transactions are used to compensate for the lost option payment, hence protecting the capital.

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1 The HNWI definition include any individuals whose financial assets are equal at least USD 1 million.
2 Analyzing Alternative Funds, an article published by Islamic Finance Asia in October 2010
3 http://www.islamicfinanceasia.com/article.asp?nm_id=18654
4 http://www.reuters.com/article/2012/06/14/islamic-finance-structures-idUSL5E8H46J120120614
5 For further information, we refer to: http://www.financialplaces.com/f_article.php?id=8
8 For further information, we refer to: http://www.financialplaces.com/f_article.php?id=8
A historical insight

The inception

The development of an Islamic alternative to call options was initiated by the National Commercial Bank—a leading commercial bank in Saudi Arabia—in the late 1990s, following the success of their conventional capital guaranteed products. In collaboration with Deutsche Bank, NCB succeeded in its offering of the first Islamic capital protected fund to retail investors. Evidence of their success was the high level of subscriptions for the first series (over $275 million)—which encouraged NCB to issue the second series—and to package the product for other financial institutions in the Middle East using private label arrangements.

In 2005, NCB launched the first capital protected fund based on CPPI in Saudi Arabia. The fund is open-ended and invests in listed companies in the Saudi market while reducing the downside risks through dynamic asset allocation between the risky equities and low risky investments.

The Expansion

In the GCC

The golden age of the Islamic capital protected funds is attributed to the huge crashes in the Gulf stock markets during 2006 and the subsequent period. The trend was supported by the greatest penetration of Shari’ah compliant funds in the Gulf where Islamic instruments account for about 64.3% of AUM. There is a palpable variation among the GCC members: Islamic investments account for 80% of the Saudi mutual fund AUM, whereas they are narrow (only 15 to 25%) in the other GCC countries. Consequently, Saudi Arabia offered a convenient environment for the development of Shari’ah compliant capital protected funds, especially when the country witnessed the collapse of its stock market in 2006. Local banks quickly joined the wave. Bahrain’s Khaleej Finance and Investment launched a capital protected fund in October 2006 named Optimum, that was linked to Islamic equity, crude oil and copper. In March 2007, Dubai Islamic Bank issued a series of capital protected global real estate investment trust (REIT) notes. One month later, ABN Amro launched an Islamic capital protected note in the Gulf linked to a basket of commodities.

Outside the GCC

Islamic capital protected funds have grown in popularity outside the Middle East as well. Some Malaysian fund management companies have taken the lead to promote these products like CIMB or ING with its Baraka capital protected notes to name a few. In Pakistan, Al Meezan Investment Management was the first to launch a Shari’ah compliant protected fund in February 2008. They placed up to 80% of the investors contributions into a Murabaha structure with Meezan Bank and the balance in Shari’ah compliant equities.

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1 Ibid
4 Deutsche Bank was the capital protection provider.
5 http://www.chriswrightmedia.com/cerulisharrahcapitalprotectionjan09/
6 Ibid
**Issues and Challenges**

Though the 2008 downturn created an environment in which capital protected funds usually flourish, Islamic counterparts proved to be thin on the ground because of the following reasons:

- The word “Structuring” has been closely linked to the recent financial scandals and some of this negative reputation has reached Islamic countries as well. Though many local institutions offer Shari’ah compliant capital protected products, it is very often an international group that is behind it: Deutsche, JP Morgan, UBS, BNP Paribas, SG or ABN Amro for example. And some of these groups’ structures have caused great socio-economic damage in the world lately.

- Islamic protected funds have to overcome the same issue as that of other Islamic mutual funds i.e. the limited availability of Shari’ah compliant assets.

- Still with regards to the underlying assets, some funds may have recourse to controversial structures. One of the most contested Islamic products was structured by Deutsche Bank and issued by Dubai Islamic Bank in 2007. It was referenced to the DB-GSAM Alps Index that tracks the performance of a fund of hedge funds managed by Goldman Sachs Asset Management. Although this structure was validated by some renowned scholars by way of a swap mechanism to put returns into a compliant asset, there was widespread concern regarding the Shari’ah compliance of this method.\(^1\)

**b. Survey’s interpretation**

From the preliminary research, we notice that Saudi Arabia has an outstanding Islamic capital protected funds’ base, while Malaysia and Pakistan come in second in terms of importance. On the other hand, we were surprised by the limited number of these funds in some gulf countries like Bahrain, UAE, Kuwait and Qatar.

The largest funds are located within Saudi Arabia. The highest total net asset in the survey’s pre-selection is attributed to “Commodity Trading Fund SAR” with a value of $533.87 million. In KSA, five of the selected funds are above $70 million and these are found to be within the hands of large investment families in the MENA region. The average fund size, however, is estimated at $46.99 million. Actually, in addition to large capital protected funds, the Saudi Stock Exchange also comprises a considerable number of small funds: half of the Saudi pre-selection (12 out of 24 funds) is under $20 million.

<table>
<thead>
<tr>
<th>Fund’s name</th>
<th>Total Net Assets ($ M)</th>
<th>Investment Company</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commodity Trading Fund SAR</td>
<td>533.87</td>
<td>Riyadh Capital</td>
</tr>
<tr>
<td>Al-Badr Murabaha Fund – SAR</td>
<td>210.19</td>
<td>Saudi Fransi Capital</td>
</tr>
<tr>
<td>AlManarah Conservative Growth Fund</td>
<td>136</td>
<td>NCB Capital</td>
</tr>
<tr>
<td>International Trade Finance Fund (Sunbullah USD)</td>
<td>121</td>
<td>Samba Capital</td>
</tr>
<tr>
<td>HSBC Amanah Multi-Assets Defensive Portfolio</td>
<td>74.40</td>
<td>HSBC Saudi Arabia Ltd</td>
</tr>
</tbody>
</table>

Table 7: Largest Capital Protected funds within the survey’s pre-selection

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\(^1\) [http://www.chriswrightmedia.com/cerullishariahcapitalprotectionjan09/2/](http://www.chriswrightmedia.com/cerullishariahcapitalprotectionjan09/2/)
Interestingly, about 30% of funds hold 70% of Total net assets while 70% of funds hold only 30% of Total net assets. This reflects the disparity of wealth between MENA countries.

Malaysia comes in second where 3 out of 4 funds’ net assets are above $40 million and the mean value is estimated at $35 million. Most of the Pakistani funds are under $10 million and the average fund size is relatively small at $6.61 million. The data related to total net assets is unavailable for UAE and Kuwait, except for one Kuwaiti fund “Global Islamic Fund” whose size is very trivial at only $1.80 million. Overall, the average Islamic capital protected funds value is still low as compared with its conventional peers in other regions, at around $47 million.

<table>
<thead>
<tr>
<th>Investment fund Families</th>
<th>Number of Funds</th>
<th>Total Net Assets ($ M)</th>
</tr>
</thead>
<tbody>
<tr>
<td>NCB Capital</td>
<td>13</td>
<td>9.56</td>
</tr>
<tr>
<td>EFG Hermes</td>
<td>20</td>
<td>2.53</td>
</tr>
<tr>
<td>Riyad Capital</td>
<td>13</td>
<td>2.47</td>
</tr>
<tr>
<td>Beltone Asset Management</td>
<td>9</td>
<td>2.47</td>
</tr>
<tr>
<td>HSBC Saudi Arabia Ltd</td>
<td>16</td>
<td>2.38</td>
</tr>
<tr>
<td>Al-Rajhi Capital</td>
<td>12</td>
<td>1.94</td>
</tr>
<tr>
<td>El-Ahly Fund management</td>
<td>5</td>
<td>1.57</td>
</tr>
<tr>
<td>CI Asset Management</td>
<td>4</td>
<td>1.38</td>
</tr>
<tr>
<td>Samba Capital</td>
<td>5</td>
<td>1.28</td>
</tr>
<tr>
<td>Caam Saudi Fransi</td>
<td>8</td>
<td>1.26</td>
</tr>
<tr>
<td>Subtotal</td>
<td>105</td>
<td>26.84</td>
</tr>
<tr>
<td><strong>Percentage from mutual fund industry in MENA</strong></td>
<td></td>
<td><strong>70%</strong></td>
</tr>
<tr>
<td>Others</td>
<td>278</td>
<td>11.55</td>
</tr>
<tr>
<td><strong>Percentage from mutual fund industry in MENA</strong></td>
<td></td>
<td><strong>30%</strong></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>383</td>
<td>38.39</td>
</tr>
</tbody>
</table>

Table 8: Largest MENA Investment Fund Families (source: World Bank, 2009)

<table>
<thead>
<tr>
<th>Number of pre-selected funds</th>
<th>Total NAV ($ Million)</th>
<th>Average NAV ($ Million)</th>
<th>Median ($ Million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>UAE</td>
<td>11</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>Kuwait</td>
<td>14</td>
<td>1.80</td>
<td>1.80</td>
</tr>
<tr>
<td>Pakistan</td>
<td>5</td>
<td>31.20</td>
<td>6.24</td>
</tr>
<tr>
<td>Malaysia</td>
<td>5</td>
<td>176.21</td>
<td>44.05</td>
</tr>
<tr>
<td>KSA</td>
<td>24</td>
<td>1341.65</td>
<td>58.33</td>
</tr>
</tbody>
</table>

Table 9: Islamic Pre-selected funds aggregation (February: March 2012)

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2 We refer to Table 22 (pp.177-178) for further details about the pre-selected funds. Data are those of March 2012, except for UAE where the data are those of February 2012.
A value of “0” means that the information was not available at the time of data collection.

Figure 8: Islamic pre-selected capital protected funds aggregation (February: March 2012)

At first sight, one realizes that the funds listed in the final selection (page 179) are not that recent. Only 8/14 have been established post-2007. In reality, a fund’s age depends on the companies; for instance protected funds in Malaysia and Pakistan are relatively new as the oldest ones were established in 2007.

Out of 14 final selected funds, 10 are open-ended while only 4 are closed and 9 are listed while 5 are not.

Capital protection techniques are constrained with the limited availability of Shari’ah compliant assets, especially those with limited risk and high credit quality that could be used to preserve the capital. Besides, the continuous debate regarding the Shari’ah compliance of some “Islamic derivatives” has created some sort of reluctance amongst fund managers to incorporate them within protection strategies.

Although we previously mentioned the Islamic version of a call option via Bai’ Al-Urboon and its adoption by NCB in its first Islamic protected fund, the Islamic “Bond & Call” strategy was not found in this survey. At least, no clear mention has been made about it in any of the prospectuses. In contrast, the survey revealed a wide use of fixed income contracts like Sukuk and Murabaha transactions that could be applied in different investment approaches. Only one fund in the final selection had recourse to structured products and another one to Ijarah transactions. Protection strategies can be summarized as follows:

- **Investing 100% of the capital in safe assets**: this was detected in two funds. The “Global Islamic Fund” of Kuwait invested in governmental and semi-governmental securities that were based on Murabaha and Wakalah. The “HBL Islamic Money Market Fund” of Pakistan invested in high credit graded bank deposits and money market instruments.
- **Cautious investment in mixed assets while adopting a static investment approach**: This approach was adopted by five funds. It consists of placing a considerable and fixed portion of the initial capital in low risk and high credit quality instruments including Sukuk or Murabaha transactions either directly or through funds. The remaining is used to take limited exposure over Shari’ah compliant equity.
- **Cautious investment in mixed assets with dynamic allocation**: This method was found within two Saudi funds. It is about following an active management strategy of allocating the capital at different and dynamic weighting across conservative instruments like Murabaha transactions or Sukuk and return generating instruments like equity. As protected funds are defensive, the bulk of investor contributions are directed to safe instruments while a small percentage is injected into equities to benefit from the upside.

- **Trade financing**: Three funds used this method and all of them are located in Saudi Arabia. It is done by way of Murabaha transactions where goods are purchased on Spot Basis, then sold at markup price provided that the payment is made in installments. Usually, a small portion of the capital is invested in safe fixed income instruments.

- **Ijarah transactions**: The only funds that use Ijarah transactions (not Ijarah Sukuk) are the NBK series, namely NBK-Islamic Ijarah fund VIII. Ijarah allows the fund to generate returns from the equipment’s sublease and to protect the initial capital. To achieve this goal, the NBK fund sale-and-lease-back. It places investors’ contributions in a Cayman Island based fund “Wafra Fund”, which in turn deals with a SVP of a lease originator-responsible for supervising lease transactions. By purchasing the equipments from the SPV and leasing them back, “Wafra fund” secures fixed lease payments and if added to the residual value of the equipments- at which they are sold by the end of the term- it also protects the initial capital.

- **Structured products**: Only one fund in this survey bases its protection strategy exclusively on structured products. Located in Malaysia and managed by a CIMB Islamic subsidiary, “CIMB-I Comm Structured Fund 2” places the bulk of its NAV in “Dynamic Commodity structured products” issued by the same bank. The investment mechanism was not well elaborated in the prospectus, but what is understood is that capital protection is secured through the payouts generated by the structured products and the annual dividends are linked to the payment of the three best indices offered by CIMB Islamic.

Hence, it appears that capital protection is achieved through basic tools -mainly using Murabaha transactions and Sukuk- and this is probably the simplest way to achieve this objective while staying in compliance with Shari’ah. While structured products already nourish controversies about their Shari’ah compliance, sale-and-lease-back transactions may imply substantial administrative, supervision and maintenance costs. Dynamic asset allocation might not be favored as well. It requires constant monitoring and the implementation of certain algorithms necessary for portfolio balancing. Therefore, the majority of the Islamic protected funds opt for the static conservative investments and trade financing as they are basic and easy to implement. CPPI, either in its original version or the enhanced version was found only in limited cases. Evidently, CPPI could be easily adapted to fit in the Islamic context. Nevertheless, few Islamic funds seem ready to embrace it, for the moment.

Two countries deserve particular attention in this survey, due to the relevance of their capital protected funds industries and their intriguing features. These are Saudi Arabia and Malaysia. Saudi Arabia has the highest concentration of Islamic capital protected funds and is home to the largest funds. A notable feature of these products is that all of them are open-ended. And since we referred to the Saudi Stock Exchange, it is obvious to have them all listed in Tadawul. Furthermore, the dominance of trade funds is striking: according to a World Bank Report (2010)\(^1\) trade finance funds account for 64% of Saudi Mutual funds. One possible reason for the large share of trade or Murabaha funds in the Saudi market is the fact that the majority of bank accounts are free demand deposits. Hence, Murabaha funds play the role of Islamic investment accounts in other regions.

From the data available, we can say that Saudi funds are highly liquid and seem to be in good shape. The oldest fund of the final selection “International Trade Finance Fund (Sunbullah USD)” which is a trade fund, recorded 1,432,282 unit cancellations and 1,284,424 unit creations for the year ended 2010. The “Al Hadi Sharia Compliant Fund”, an actively managed cautious fund, displayed 2,213,818 unit creations and 163,766 unit cancellations in 2010. Finally, the best performing Islamic protected funds in KSA are relatively old. The most recent was established in 2010 while the others were launched pre-2006.

Islamic protected funds in Malaysia, similar to their conventional counterparts covered previously in Asia protected funds survey, are all closed and medium term, between 3 to 5 years. Additionally, all of them are not listed, but this has nothing to do with the regulation. Malaysia has been issuing protected funds over the last decade, and as they are medium term, it is understandable to have in hand the newly established ones. Ultimately, 2 out 3 funds have limited their exposure to equity using static investment approach, whereas “CIMB-I Comm Structured Fund 2” is the sole fund that has recourse to structured products and it appears to face a huge wave of cancellations—86,396,627 units cancelled against zero created in 2010.

Asset classification of Islamic Protected funds differs from that of their conventional peers. Actually, Islamic funds have recourse to underlying contracts in their transactions. Therefore, the survey revealed a clear dominance of Mixed Cautious Assets that combine a high proportion of fixed income securities (Murabaha transactions and Sukuk) and a small portion of Islamic equities. They are followed by Trade Financing Assets that are based on Murabaha transactions. Equipment lease or structured products have a limited presence. The usual method of valuation is based on forward pricing.
VII. Survey of European Protected Funds

1. Funds screening -Methodology

- We applied the Lipper Filter to select Capital protected funds with the highest ratings in terms of “total returns”.
- The list of countries we scrutinized under Lipper are: France, Spain, Italy, Germany, Switzerland, Luxembourg, Sweden, Belgium, and Austria.
- Capital protected funds in UK are not rated. Hence, most of them didn’t appear on Lipper. Instead, we used the Morningstar fund screener.
- For UK, we selected the funds having the highest Year to Date (YTD) rate of return.
- The data are relative to September 2011.

2. Survey’s selection

<table>
<thead>
<tr>
<th>Fund’s name</th>
<th>Performance</th>
<th>Type of assets</th>
<th>Total net assets (Currency of denomination)</th>
<th>Total net assets ($ Million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>UK</td>
<td>Scottish Widows Capital Protected 10</td>
<td>6.70% (YTD)</td>
<td>Equity</td>
<td>226.72 M GBP</td>
</tr>
<tr>
<td>UK</td>
<td>Scottish Widows Protected Cap Sol 5</td>
<td>3.25% (YTD)</td>
<td>N/A</td>
<td>54.42 M GBP</td>
</tr>
<tr>
<td>UK</td>
<td>HSBC Capital Protected 12 Retl</td>
<td>3.02% (YTD)</td>
<td>Mixed assets</td>
<td>12.90 M GBP</td>
</tr>
<tr>
<td>UK</td>
<td>Scottish Widows Protected Cap Sol 4</td>
<td>1.43% (YTD)</td>
<td>N/A</td>
<td>76.17 M GBP</td>
</tr>
<tr>
<td>UK</td>
<td>IFDS Omnis JP Morgan Protector 80 2 A</td>
<td>1.34% (YTD)</td>
<td>Mixed assets</td>
<td>14.57 M GBP</td>
</tr>
<tr>
<td>UK</td>
<td>IFDS Omnis JP Morgan Protector 80 A</td>
<td>0.80% (YTD)</td>
<td>Mixed assets</td>
<td>7.99 M GBP</td>
</tr>
<tr>
<td>UK</td>
<td>CMIG GA 90% Flexible</td>
<td>0.77% (YTD)</td>
<td>Mixed assets</td>
<td>18.41 M GBP</td>
</tr>
<tr>
<td>France</td>
<td>Atout Prem’s Actions</td>
<td>5 (lipper)</td>
<td>Mixed assets</td>
<td>131.82 M EUR</td>
</tr>
<tr>
<td>France</td>
<td>Atout Serenactions</td>
<td>5 (lipper)</td>
<td>Equity</td>
<td>183.31 M EUR</td>
</tr>
<tr>
<td>France</td>
<td>BNP Paribas Cliquet US</td>
<td>5 (lipper)</td>
<td>Bond</td>
<td>112.78 M EUR</td>
</tr>
<tr>
<td>France</td>
<td>Fortis Form 2012</td>
<td>5 (lipper)</td>
<td>Mixed assets</td>
<td>3.73 M EUR</td>
</tr>
<tr>
<td>France</td>
<td>Murano Plus 5</td>
<td>5 (lipper)</td>
<td>Equity</td>
<td>17.80 M EUR</td>
</tr>
<tr>
<td>France</td>
<td>Murano Plus 8</td>
<td>5 (lipper)</td>
<td>Equity</td>
<td>9.76 M EUR</td>
</tr>
<tr>
<td>France</td>
<td>Murano Plus 8 Assurance</td>
<td>5 (lipper)</td>
<td>Mixed assets</td>
<td>33.75 M EUR</td>
</tr>
<tr>
<td>Belgium</td>
<td>Fortis B Fix 2008 Alpha Plus 01 Dis</td>
<td>5 (lipper)</td>
<td>Equity</td>
<td>3.56 M EUR</td>
</tr>
<tr>
<td>Belgium</td>
<td>Fortis B Fix 2008 Best of Belgium 02</td>
<td>5 (lipper)</td>
<td>Equity</td>
<td>8.44 M EUR</td>
</tr>
<tr>
<td>Belgium</td>
<td>Fortis B Fix 2008 Duo 01 Double Six Dis</td>
<td>5 (lipper)</td>
<td>Equity</td>
<td>12.97 M EUR</td>
</tr>
<tr>
<td>Belgium</td>
<td>Fortis B Fix 2008 Lookback 02</td>
<td>5 (lipper)</td>
<td>Equity</td>
<td>2.11 M EUR</td>
</tr>
<tr>
<td>Belgium</td>
<td>KBC Districlick Conservative Opportunity 1</td>
<td>5 (lipper)</td>
<td>Equity</td>
<td>3.35 M EUR</td>
</tr>
<tr>
<td>Belgium</td>
<td>KBC EquiMax Asia 10</td>
<td>5 (lipper)</td>
<td>Equity</td>
<td>16.87 M USD</td>
</tr>
<tr>
<td>Belgium</td>
<td>KBC EquiMax ECO Water 1</td>
<td>5 (lipper)</td>
<td>Equity</td>
<td>35.02 M EUR</td>
</tr>
</tbody>
</table>

1. www.lipperleaders.com
2. A brief presentation on Lipper can be found in Annex 3
3. Total Return: The Lipper Rating for Total Return denotes a fund that has provided superior total returns (income from dividends and interest as well as capital appreciation) when compared to a group of similar funds. The Lipper Rating for Total Return may be the best fit for investors who want the best historical return, without looking at risk.
4. A brief presentation on Morningstar can be found in Annex 4.
5. YTD describes the return so far this year. The period beginning 1st January of the current year up until today’s date.
6. For the funds that are rated by Lipper, the data related to the “Total net assets” is that of 29 February 2012. For UK funds, other sources have been used such as http://www.morningstar.co.uk/uk/ and http://funds.ft.com these are of 29th February or 15th March.
The best performing funds in the UK were established after the financial crisis, unlike the rest of the surveyed funds that were set up before 2008. UK protected funds in this list have the peculiarity of being short to medium term (3-5 years) and renewable at investors discretion. The six others are of 7 to 10 years tenure and investors have to be locked-in until the maturity date to benefit from the capital protection. This confirms the evolution of capital protected funds post crisis, as outlined in chapter III - that the investment terms tend to be shorter than before.

Though established post-2008, UK funds use the Bond & Call Option technique, one of the oldest protection techniques, and the traditional version of CPPI. This can probably be explained by the unpopularity of the protected funds few years ago\(^1\) which points to the fact that the industry players might not have had enough time to structure/experience new features. The “IFDS Omnis JP Morgan Protector 80 2 A”, is however, an exception. It came with an uncommon investment mechanism: A swap with JP Morgan. The fund makes payments to JPMorgan Chase Bank, which in turn agrees to make payments back to the fund based on the return of an investment portfolio and a cash element. This indicates that protected funds post-crisis got creative.

As noticed generally, capital protection is sophisticated in Europe even for funds established before 2008. It certainly reflects the importance of the market and the long history of this industry in the continent. The statement is particularly true for France- the leading market for capital protected funds- where one of the oldest funds “BNP Paribas Cliquet US” has been using, since 1998, a dynamic protection floor in the CPPI meant to lock the share price at the highest level achieved.

3. Final selection
   - The number of funds to be scrutinized was finalized based on the relevance of the financial activity in the selected countries. Hence, we have included four funds from the UK, two from France, one from Luxembourg, one from Switzerland, one from Belgium and one from Germany.
   - As all the pre-selected funds have a high rating in terms of “total return”, we randomly choose the protected funds to be shortlisted for the survey.
   - If an investment company is recurrent, we choose only one sample fund. Thus, it would be more likely to cover different management styles.
   - As a result, the final selection of funds for Europe is as follows:

\(^1\) We refer to the above mentioned statistics as of March 2003 published by “The European Savings and Investment Outlook”
Table 11: Final selection of Europe Capital Protected Funds

<table>
<thead>
<tr>
<th>Fund’s name</th>
<th>Performance</th>
<th>Type of assets</th>
<th>Total net assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>UK</td>
<td>Scot Wid Capital Protected 10</td>
<td>6.70% (YTD)</td>
<td>Equity</td>
</tr>
<tr>
<td>UK</td>
<td>HSBC Capital Protected 12 Retl</td>
<td>3.02% (YTD)</td>
<td>Mixed assets</td>
</tr>
<tr>
<td>UK</td>
<td>IFDS Omnis JP Morgan Protector 80 2 A</td>
<td>1.34% (YTD)</td>
<td>Mixed assets</td>
</tr>
<tr>
<td>UK</td>
<td>CMIG GA 90% Flexible</td>
<td>0.77% (YTD)</td>
<td>Mixed assets</td>
</tr>
<tr>
<td>Switzerland</td>
<td>Archimedes Invest Plus Fund- CHF</td>
<td>5 (lipper)</td>
<td>Mixed assets</td>
</tr>
<tr>
<td>France</td>
<td>Atout Prem’s Actions</td>
<td>5 (lipper)</td>
<td>Mixed assets</td>
</tr>
<tr>
<td>France</td>
<td>BNP Paribas Cliquet US</td>
<td>5 (lipper)</td>
<td>Bond</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>DMC Dyn Flooring Fd Expo Bonds Europe DF R EUR</td>
<td>5 (lipper)</td>
<td>Bond</td>
</tr>
<tr>
<td>Belgium</td>
<td>Fortis B Fix 2008 Alpha Plus 01 Dis</td>
<td>5 (lipper)</td>
<td>Equity</td>
</tr>
<tr>
<td>Germany</td>
<td>Pioneer Funds Austria - Trend Bond A</td>
<td>5 (lipper)</td>
<td>Bond</td>
</tr>
</tbody>
</table>

A value of “0” means that the information was not available at the time of data collection.

Figure 9: Europe final selected funds aggregation
4. Survey results

a. The approach

- For each fund, we tried to collect the respective prospectus and the latest annual report, if available.
- In the prospectus, we looked for information related to: type of fund, type of assets, protection strategy and fund valuation.
- For the funds where the predominant type of assets was not mentioned by the fund screener (UK funds), we examined the respective prospectus and Morningstar (www.morningstar.com) to confirm their asset allocation. In the annual report, we confirm the type of asset by examining the asset allocation, and if the information is available, we try to address the redemption/subscription frequency. This is presented in the form of units created or canceled during the financial year. We mention (N/A) in the Redemption/subscription frequency cell if the information is not available or if we were unable to find the annual report.
- Pertaining to secondary trading, we browse the respective stock exchange markets and check whether the ISIN (International Securities Identification Number) code of the fund or its name is listed in the market. If so, we consider that fund units are traded in the secondary market, otherwise no.
b. Funds’ profiles

**Scottish Widows Capital Protected 10**

- **Investment and protection strategy**

  **Cash Investment Period:** (28 January 2009 to 11 June 2009)
  - The period during which money can be invested into the fund.
  - During this period, the fund invests principally into deposits, in cash or near cash or collective investment schemes until the Derivative Date.

  **Growth Potential Period:** (Derivative date 25 June 2009, Protection date 11 June 2015)
  - This is the period during which the fund invests in Derivatives.
    - How capital protection is calculated:
    - The aim of capital protection is to return the original investment at the Protection Date. This is calculated as follows:
      - **Capital protection price:** The minimum share price the fund expects to return on the protection date.
      - **Capital protection value:** The capital protection price multiplied by the number of shares held. If an investor keeps his shares until the Protection date, the Capital protection value should be equal to the amount of his original investment plus any interest earned until the start of the Growth Potential Period. The Capital protected period includes the full initial charges deducted at the start of the investment.
    - **Type of investments:**
      - The fund invests in derivatives that are structured to deliver this capital protection and to provide the Participation Rate in the Index.
      - The value of these derivatives depends on an expected future price of an underlying asset, which are either shares or the FTSE 100 index.
    - **What the investor might get back**
      - What the investor gets back depends on the performance of the fund (FTSE 100 performance) and when the investor sells his units. We suppose that the investor keeps his shares until the protection date.
      - The fund aims to provide a minimum return of the capital invested.
      - **Cap:** the cap sets the maximum additional amount you can get, as a percentage of the Capital Protected Value. The cap for “Capital Protected fund 10” is 33.33% which means the maximum you can receive back at the end of the term is the Capital Protected Value plus an additional 33.33% of that value.
      - The additional amount the fund aims to provide will be based on 150% (the participation rate) of any growth of the FTSE 100 index over the Growth Potential Period, after allowing for Averaging. Any additional amount will be subject to the Cap (a maximum of 33.33% of the capital protected value).

- **Financial institution:** The fund is established by Scottish Widows Investment Solutions Funds ICVC.
- **Inception date:** 28th January 2009.
- **Investment Objective:** The Fund aims to provide investors with a Capital Protected Price on the Protection Date and to offer capital growth linked to the performance of a stock market index, during the growth period.
- **Type of assets:** Equity.

---

Please refer to Annex 1 for a detailed explanation of the participation rate.
• **Averaging**: An average of the daily closing levels of the index is taken over the last 12 months of the Growth Potential Period. This is compared with the closing levels of the index on the Derivative date to determine whether there has been any rise in the Index during the period when the fund is invested in derivatives.

• **Averaging** is intended to provide the investors with extra protection from sudden changes in the level of the index; however, it could also have the effect of reducing growth. The level of the index that would be calculated at the end of the Growth Potential Period could be higher or lower than the actual level of the index.

• The Cap on the additional amount could mean that the investor receives less growth compared to investing directly in the stock market.

**At the Protection date**

• At the protection date, the fund aims to deliver its investment objective for capital protection and growth. This is the only date on which the original investment is protected.

• The investor is then given the choice to invest in another Capital Protected Fund, to invest in another fund or to receive the proceeds.

**Additional protection:**

• Derivatives are also used for hedging purposes: cross currency derivatives.

• The capital protection described above is not guaranteed. The Counterparty that provides derivatives could fail to meet its obligations which could affect investors’ returns from the fund.

• In order to provide additional protection, collateral is required to be held by an independent custodian. The fund aims to hold a collateral of at least 100% of the value of derivatives at any time, to be used if the counterparty fails to meet its obligations.¹

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¹ Sources:
The prospectus could be downloaded from: [http://www.morningstar.co.uk/uk/snapshot/snapshot.aspx?id=F000003Y4G&tab=12](http://www.morningstar.co.uk/uk/snapshot/snapshot.aspx?id=F000003Y4G&tab=12)
### Profile summary

<table>
<thead>
<tr>
<th>Fund name</th>
<th>Type of asset</th>
<th>Type of fund</th>
<th>Subscription/Redemption Frequency</th>
<th>Protection technique</th>
<th>Valuation Method</th>
<th>Secondary trading</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scottish Widows Capital Protected10</td>
<td>Equity:</td>
<td>Limited Issue</td>
<td>N/A</td>
<td><strong>A variation of Bond &amp; Call Option:</strong>&lt;br&gt;a) Cash investment period: participations are invested in deposits or other investment collective schemes.&lt;br&gt;b) Growth period: fund invests in index linked derivatives.&lt;br&gt;&lt;br&gt;<strong>Additional protection:</strong>&lt;br&gt;a) Derivatives are also used for hedging purposes: cross currency derivatives.&lt;br&gt;b) Collateral of at least 100% of derivatives value is held, at any time, to cover Counterparty risk.</td>
<td>• The NAV is calculated based on forward pricing during the Growth Potential Period as at the valuation point (being 2.00 pm) on every week (Friday).</td>
<td>No²</td>
</tr>
<tr>
<td></td>
<td>Safe assets:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Deposits and cash.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Risky assets:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Derivatives linked to FTSE 100 index.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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¹ Money can be invested in the fund only during the Cash Investment Period.
² Only Scottish Widows Capital Protected 1 is listed on the London Stock Exchange.

HSBC Capital Protected 12 Retl

➤ Investment strategy
• HSBC Capital Protected 12 Retl is a sub-fund structured under the Umbrella Company “HSBC Specialist Investment Funds”.
• The Capital Protected Fund follows an investment cycle:

The Limited Issue Period/or Cash Period: 29 September 2008 – 9 January 2009
• Investments can only be made into a Capital Protected Fund during a Limited Issue Period. Throughout this period, the Fund holds cash deposits and money market instruments, which may include other collective investment schemes.

Capital Protected Period: 30 January 2009 - 30 January 2015
• At the start of the Capital Protected Period your Capital Protected Amount is calculated. This amount includes your original investment, without any deduction for an initial charge, plus any growth in the value of your shares during the Limited Issue Period.
• The Fund then invests in derivatives in order to achieve the aim of providing capital growth linked to an index or indices and a protected minimum amount at the end of the Capital Protected Period.
• The value of each share shall be increased by “Participation Rate” in the capital rise, if any. “Participation Rate” means the percentage growth in the Relevant Index (FTSE 100 Index or any such other index). For this particular fund, the participation rate is 100%.
• The investments will not be subject to an active portfolio management during the Full Investment Period, or the Early Release Investment Period as applicable, and they will be retained until the Termination Date.
• The fund manager may decide, on or before the commencement of any “Limited Issue Period” of the sub-fund to include, or not to include, an “Early Release Feature”.
  ○ Early Release Feature:
• If the Relevant Index rises above the “Early Release Level” on a specified date prior to the end of the specified investment term, the Capital Protected Period will cease. The investor will receive a specified fixed percentage return in lieu of participation of the rise up to and above the Early Release Level in respect of this Capital Protected Period. For this particular fund, the “Maximum Return Level” – the maximum percentage growth in the Capital Protected Amount – is set at 60%.

➤ Financial institution: The fund is managed by HSBC Global Asset Management (UK) Ltd.
➤ Inception date: 29th September 2008.
➤ Investment Objective: This Fund aims to provide, at the end of each “Capital Protected Period”, a return being at least 100% of the value of each share held at the commencement of each Capital Protected Period. In addition, the value of each share shall be increased by, percentage participation, the “Participation Rate” linked to the relevant index.
➤ Type of assets: Mixed Assets.

1 Simplified Prospectus: http://www.morningstar.co.uk/uk/funds/snapshot/snapshot.aspx?id=F000002K0F&tab=14&DocumentId=53e0ec75dba47e8599785d09c42890ab&Format=PDF
End of the capital protection Period:
- At the end of the Capital Protected Period the Capital Protected Fund reverts to holding cash deposits and money market instruments. The closing level of the index is taken, which may be the average of a number of readings of the Index, and the growth, if any, in the index is calculated. The growth will then be reflected in the price of the shares. Following this, the investment cycle may commence again with another Limited Issue Period.¹

Additional Protection:
- In addition to meeting investment objectives, derivatives will be also used for the purposes of hedging.²

¹ Fund’s Profile:
http://www.morningstar.co.uk/uk/snapshot/snapshot.aspx?id=F000002K0F
² The annual report for the Year ended 2010, the prospectus and the simplified prospectus could be downloaded from the following link: http://www.morningstar.co.uk/uk/snapshot/snapshot.aspx?id=F000002K0F&tab=12
The annual report does not provide any data related to units’ cancellation and redemption, or any other information that could help in deducing them.

HSBC Capital Protected Issue 12 Retl is not listed whereas Issue 17 Retl, 18 Retl and 19 Retl are listed in London Stock Exchange http://www.londonstockexchange.com/exchange/prices-and-markets/funds/funds-result.html?subject=&investmentType=84%21UK&managementGroup=25024468&category=126

Profile summary

<table>
<thead>
<tr>
<th>Fund name</th>
<th>Type of asset</th>
<th>Type of fund</th>
<th>Subscription/Redemption Frequency</th>
<th>Protection technique</th>
<th>Valuation Method</th>
<th>Secondary trading</th>
</tr>
</thead>
<tbody>
<tr>
<td>HSBC Capital Protected 12 Retl</td>
<td><strong>Mixed Assets:</strong> Risky asset: Index related derivatives. Safe assets: Cash, near cash, deposits and/or money market based collective investment schemes.</td>
<td>Limited issue</td>
<td>N/A 1</td>
<td>Bond &amp; Call Option technique: Cash Investment Period followed by a Growth Period using derivatives linked to the performance of FTSE 100 Index. Additional protection: Derivatives are also used for hedging purposes and to help achieving investment objectives.</td>
<td>• The NAV of the underlying funds is calculated on a daily basis using forward pricing.</td>
<td>No 2</td>
</tr>
</tbody>
</table>

---

1 The annual report does not provide any data related to units’ cancellation and redemption, or any other information that could help in deducing them.

2 HSBC Capital Protected Issue 12 Retl is not listed whereas Issue 17 Retl, 18 Retl and 19 Retl are listed in London Stock Exchange http://www.londonstockexchange.com/exchange/prices-and-markets/funds/funds-result.html?subject=&investmentType=84%21UK&managementGroup=25024468&category=126
IFDS Omnis JP Morgan Protector 80 2 A

**Investment strategy**
- IFDS Omnis JP Morgan Protector 80 2 A is a Sub-fund structured under the Umbrella Company “IFDS Omnis Investments ICVC”.
- The fund provides exposure to a broad portfolio of assets whilst aiming to ensure that the value of the investment does not fall below 80% of its highest ever value.²

**How the fund works**
- A variation of CPPI:
  - The fund aims to achieve its growth and protection objectives by having exposure to two components – an Index Allocation and a Cash Allocation, as explained below.
    - **The Index Allocation**: this is the investment element that the fund is exposed to, and offers investors the potential to generate capital growth by being linked to the performance of a diverse range of assets including equities, bonds, currencies and commodities.
    - **The Cash Allocation**: this aims to provide protection and stability by providing a return linked to the overnight sterling money market interest rate.
- Through active day-to-day management and following a set of rules that define the proportion of the fund that is exposed to the Index Allocation and the proportion that is exposed to the Cash Allocation, the fund aims to benefit from the growth in global markets whilst protecting 80% of the fund’s highest ever Share Price. The Share Price is the price at which shares can be bought and sold in the fund.
- Up to 100% of the fund resources can be allocated to either the Index Allocation or the Cash Allocation in response to market conditions.
  - **The Swap with JP Morgan**: Rather than investing directly into the Index Allocation and the Cash Allocation, the fund will enter into a financial contract with J. P. Morgan Chase Bank, N.A. (JPMorgan). Under this contract, the fund makes an agreed payment to JPMorgan, who in return makes payments back to the fund based on the performance of the Index Allocation and the Cash Allocation.
  - The purpose of this ‘Swap’ contract is to efficiently implement the investment strategy of the fund.
- As the fund has entered into a financial contract with JPMorgan and does not physically invest into the Index Allocation or the Cash Allocation, JPMorgan is required to provide collateral to offset the fund’s credit risk. This collateral is in the form of government bonds from Canada, France, Germany, Japan, UK or the USA, which are considered by the market to be of high quality and carry low default risk. This collateral is held by the fund’s custodian in the event of JPMorgan becoming insolvent or otherwise failing to make payments to the fund.

² Fund’s Profile: [http://www.morningstar.co.uk/uk/snapshot/snapshot.aspx?id=F00000GY6C](http://www.morningstar.co.uk/uk/snapshot/snapshot.aspx?id=F00000GY6C)
How the investment index works:
- The Index Allocation is linked to the performance of the J.P. Morgan Efficient Frontier (GBP) Index. The Index provides exposure to different asset classes such as equities, bonds, currency and commodities.
- The objective of ‘Efficient Frontier’ methodology is to determine the mix of asset classes that would have provided the highest return for a specific level of risk.¹

The protected Price and how it works:
- Every day, the price at which shares can be bought and sold in the fund varies – this is known as the Share Price. The fund aims to protect 80% of the highest Share Price ever achieved – this is known as the Protected Price.
- In practice, this means that each time the Share Price reaches a new high, the Protected Price will increase to 80% of the new Share Price level. However, if the Share Price falls, the Protected Price stays the same.²

¹ Fund’s Brochure: http://www.omnisinvestments.com/docs/Omnis%20JPM%20Protector%2080%20Fund%20brochure.pdf
² The prospectus and the annual report of the Year ended 2010 can be downloaded from the following link: http://www.morningstar.co.uk/uk/snapshot/snapshot.aspx?id=F00000GY6C&tab=12
### Profile summary

<table>
<thead>
<tr>
<th>Fund name</th>
<th>Type of asset</th>
<th>Type of fund</th>
<th>Subscription/Redemption Frequency</th>
<th>Protection technique</th>
</tr>
</thead>
</table>
| IFDS Omnis JP Morgan Protector 80 2 A | **Mixed assets:** Money market instruments. **Safe assets:** Index allocation linked to equities, bonds, currencies and commodities. | Open-ended | N/A                               | **A Variation of CPPI:**  
   a) The Index Allocation and the Cash Allocation vary depending on market conditions.  
   b) The mix of asset classes that composes J.P. Morgan Efficient Frontier (GBP) Index, vary depending on their performance in the market.  
   c) The protection floor is dynamic to limit the down-side risk of the units: 80% of the highest Share price.  
**SWAP with JP Morgan:**  
   a) The fund makes payments to JPMorgan Chase Bank, N.A., who in return agree to make payments back to the fund based on the return of an investment portfolio and cash element.  
   b) JP Morgan is forced to present collateral to offset the fund’s credit risk. |

1 Listed in London Stock Exchange:  
CMIG GA 90% Flexible

**Investment strategy**

- CMIG GA 90% Flexible is a Sub-fund of the Umbrella Fund “Universe, the CMI Global Network Fund”.
- Profile of the Typical Investor: This Sub-Fund is suitable for investors who seek capital growth over a long-term period (3-5 years) through a high to very high-risk investment.
- The investor must have experience in volatile products and must be able to accept losses of up to 10% of its original investment, while the remaining 90% of the initial capital is protected.
- To achieve long term capital growth the fund would invest in a portfolio of:
  - Equity securities: namely the Euro Stoxx 50 share index.
  - Safe assets: for instance, Euro denominated short-term securities and short-term instruments, money market instruments and deposits with credit institutions.\(^1\)

**Protection strategy: (A variation of CPPI)**

- **Equity and equity related securities**
  - To achieve long term capital growth, the fund invests in equities of the Euro Stoxx 50 share index. Index futures and investments in contracts for differences may be used as determined from time to time by the Manager with the objective of gaining exposure to equities within the Euro Stoxx 50 Share index in a more effective manner.
  - The allocation to equity and equity related securities will vary between 0% to 43.2% of the fund’s NAV depending on market conditions and fluctuation of the equity securities in the Dow Jones Euro Stoxx 50 share index and related index futures.
  - Contracts for differences will only be entered into by the Fund when the counterparty is a first class financial institution specialized in this type of transaction. Hence, the counterparty risk, entailed with this type of private agreements, would be minimized.
  - The total commitments resulting from the use of financial derivative instruments may not exceed the total NAV held by the Sub-Fund.
    - **Safe assets**

- **Safe assets**
  - To achieve the objective of capital preservation, the manager will invest temporarily or for a longer term, a substantial portion of the assets of the Sub-Fund (between 56.8 and 100%) in Euro denominated short-term securities and short-term instruments, money market instruments and deposits with credit institutions.\(^2\)

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\(^1\) Fund’s profile: [http://funds.ft.com/uk/Tearsheet/Summary?s=GB00B4W96W62:EUR](http://funds.ft.com/uk/Tearsheet/Summary?s=GB00B4W96W62:EUR)

### Profile summary

<table>
<thead>
<tr>
<th>Fund name</th>
<th>Type of asset</th>
<th>Type of fund</th>
<th>Subscription/Redemption Frequency</th>
<th>Protection technique</th>
<th>Valuation Method</th>
<th>Secondary trading</th>
</tr>
</thead>
</table>
| CMIG GA 90% Flexible | **Mixed assets:** Short-term securities, money market instruments and deposits. **Safe assets:** Share index “Dow Jones Euro Stoxx 50” and related index futures. | Open-ended   | N/A                               | A variation of CPPI:  
  a) Exposure to equity and equity related securities is limited to 43.2% of the NAV.  
  b) The portion of safe assets could go up to 100% of the NAV depending on the manager’s policy and market conditions.  
  **Additional Protection:**  
  Index futures and other index related derivatives are also used to hedge against the existing equity position. | • The Fund’s NAV is calculated based on daily forward pricing. | No²   |

¹ This particular Sub-fund is not listed in the London Stock Exchange:  
Archimedes Invest Plus Fund - CHF

- **Investment strategy**
  - The assets of the segments will be invested according to the principle of risk diversification in securities and other investments.
  - The fund is suitable for investors with long-term growth prospect.

**Protection strategy:**
- To secure the initial capital and to achieve a long-term capital gain, the fund invests primarily in relatively safe assets (at least 51% of the fund’s NAV).
- The portfolio is mainly composed of: fixed and/or floating rate debt securities and debt securities of private, semi-public and/or public-sector borrowers worldwide (bonds, notes, zero coupon bonds, floating rate notes, convertible bonds and warrants, etc.), money market securities as well as deposits.
- For investment purposes, the fund uses derivative instruments on recognized and sufficiently diversified stock indices (e.g. Swiss Market Index).

**Additional protection:**
- In addition to the investment purposes, derivatives are also used by the fund for hedging.
- These include derivative instruments on fixed income securities, currencies, exchange traded funds, foreign exchange forward contracts and swaps.
- At least two-thirds of the fund’s assets are denominated in Swiss Francs (CHF). Besides, there are assets denominated in other freely convertible currencies. Thus, the derivatives are mainly used to minimize the currency risk entailed with the assets that are not on Swiss Francs.

**Financial institution:** The fund is managed by IFM Independent Fund Management AG.

**Inception date:** 10th January 2006.

**Investment Objective:** Fund’s objective is to generate long-term value gains by investments in bonds and other according to the investment regulations permitted investments.

**Type of assets:** Bond.

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2 The prospectus could be downloaded from the following link: [http://globaldocuments.morningstar.com/documentlibrary/dochistory.aspx?investmentId=F000000EKI&investmenttype=1](http://globaldocuments.morningstar.com/documentlibrary/dochistory.aspx?investmentId=F000000EKI&investmenttype=1)
The Annual report of 31st December 2010 could be downloaded from the following link: http://globaldocuments.morningstar.com/documentlibrary/dochistory.aspx?investme
tid=F000000EKI&investmenttype=1###

The fund is listed in London Stock Exchange:

<table>
<thead>
<tr>
<th>Fund name</th>
<th>Type of asset</th>
<th>Type of fund</th>
<th>Subscription/Redemption Frequency</th>
<th>Protection technique</th>
<th>Valuation Method</th>
<th>Secondary trading</th>
</tr>
</thead>
</table>
| Archimedes Invest Plus Fund -CHF | **Bond:** Derivatives linked to the performance of stock indices.  
**Risky asset:** Derivatives linked to the performance of stock indices.  
**Safe assets:** Cash and fixed income securities. | Open-ended | Number of units as at 31st December 2010:  
Created: 2,495  
Cancelled: 1,463 | Investing in relatively safe assets:  
a) At least 51% of the NAV is invested in debt securities, money market instruments and deposits.  
b) Furthermore, the fund invests in derivatives on recognized stock indices.  
**Additional protection:**  
a) Derivatives are also used to hedge against investment risks mainly, currency risk. | • The NAV per share will be determined by the management company based on the valuation of the last known prices.  
• The valuation is conducted on a weekly basis each Tuesday. | Yes² |

¹ The Annual report of 31st December 2010 could be downloaded from the following link: http://globaldocuments.morningstar.com/documentlibrary/dochistory.aspx?investme
tid=F000000EKI&investmenttype=1###

² The fund is listed in London Stock Exchange:
Atout Prem’s Actions

➢ Investment strategy

The Fund’s investment objective is to:
• Offer a daily capital protection up to 90% of the Reference NAV. The Reference NAV is determined as follows:
  o In the beginning of the civil year it is set at 90% of the latest NAV of the previous year.
  o During the current year, it is reevaluated at 90% of the highest NAV ever registered.
• Participate to the evolution of the two asset classes: the risky assets and the safe assets.
• This fund has a ‘fund of fund’ structure: the management could invest up to 100% of its NAV in other funds’ shares.

Protection strategy: CPPI
• The capital protection will be achieved through the CPPI strategy. As a matter of fact, the fund portfolio would be composed of two assets types. The safe assets would ensure a certain level of capital protection, while the risky assets would be used to generate capital growth.
• The asset allocation would vary depending on the portfolio performance, the interest rate level, the capital protection date and how lucrative the risky assets are.
• The proportion of risky and safe assets depends on the fall and rise of the fund’s NAV. In falling markets, the risky assets share could be as low as 0% of the NAV. However, in the beginning of the civil year when the Reference NAV is reset, the risky assets could be reintroduced to drive the fund’s growth.
  o Safe assets:
• Foreign sovereign Bonds: namely Euro Zone sovereign bonds and the Emerging countries sovereign bonds (outside the Euro Zone).
• Short term Money Market instruments.
• Deposits.
  o Risky assets:
• Company Equities of Small/Medium and Large capitalization belonging to the OECD and to the emerging countries.
• International Bonds.
• Foreign currencies.
• Derivatives can be used to take exposure, as a substitute to risky assets, but to a limited extent.¹

Additional Protection:
• Derivatives are an integral part of the investment process.
• These are used for hedging and/or arbitrage against credit risk and the risks related to equities, exchange rates and volatility.

¹ Fund’s profile: http://www.morningstar.fr/fr/snapshot/snapshot.aspx?id=F000000523
### Profile summary

<table>
<thead>
<tr>
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</thead>
</table>
| Atout Prem’s Actions | **Mixed Assets:** Risky asset: Stocks, international bonds and currency instruments. Safe assets: Government bonds and Money market instruments. | Open-ended   | Number of units as at 30th November 2010: 
1. Created: 2,786,133 
2. Cancelled: 35,493 | A variation of CPPI:  
a) The proportions of income generating assets and safe assets vary according to fund performance and market conditions.  
b) The protection floor is dynamic to limit the down-side risk of the units: 90% of the highest Share price.  
c) Derivatives can be used as a substitute to risky assets (to take exposure).  
**Additional protection**  
Derivatives are used to hedge the exposure on risky assets and for arbitrage. | Yes | Yes² |

1 The annual report of the 30th November 2010 could be downloaded from the following link: [http://www.morningstar.fr/fr/snapshot/snapshot.aspx?id=F000000S23&tab=12](http://www.morningstar.fr/fr/snapshot/snapshot.aspx?id=F000000S23&tab=12)


---

- **Fund name**: Atout Prem’s Actions
- **Type of asset**:
  - **Mixed Assets**:
    - **Risky asset**: Stocks, international bonds and currency instruments.
    - **Safe assets**: Government bonds and Money market instruments.
- **Type of fund**: Open-ended
- **Subscription/Redemption Frequency**:
  - Number of units as at 30th November 2010:
    - Created: 2,786,133
    - Cancelled: 35,493
- **Protection technique**:
  - **A variation of CPPI**:
    a) The proportions of income generating assets and safe assets vary according to fund performance and market conditions.
    b) The protection floor is dynamic to limit the down-side risk of the units: 90% of the highest Share price.
    c) Derivatives can be used as a substitute to risky assets (to take exposure).
  - **Additional protection**:
    Derivatives are used to hedge the exposure on risky assets and for arbitrage.
- **Valuation Method**:
  - The Fund NAV is calculated based on daily forward pricing: assets are valued based on the last price available prior to midday on the relevant Valuation Date.
- **Secondary trading**:
  - Yes²
BNP Paribas Cliquet US

- **Investment and protection strategy**

**Guarantee contract:**
- The guarantor (BNP PARIBAS Asset Management) is liable to the fund for ensuring that the shareholders will always benefit from a protection level fixed at 90% of the reference NAV for each share.

**How the Capital Protection Level is determined:**
- During the fund tenure, the Capital Protection Level is calculated based on the reference NAV. The reference NAV is updated in two circumstances:
  - For each fund anniversary,
  - The reference NAV is updated to be equal to the NAV calculated for this particular day.
- The Capital Protection Level is then equal to 90% of the new reference NAV.
- Within the annual period:
  - During each annual period, whenever the fund NAV increases by 5% compared to the reference NAV in force, the fund management proceeds as follows:
  - The reference NAV is updated to be equal to the NAV that triggered the Cliquet Mechanism.
  - The Capital Protection Level is then raised to reach 90% of this new reference NAV.

**Investment approach: A variation of CPPI**
- Though Lipper categorizes “BNP Paribas Cliquet US” as an equity fund, the fund invests in a large universe and adopts a dynamic asset allocation to achieve the stated objective. The categorization comes from the fact that equity constitutes the bulk of the portfolio; by 30 June 2011, it was estimated at 89.89% of net assets.\(^1\)
- Actually, to enhance the portfolio performance and to optimize the return/risk of the assets, the fund would adopt a dynamic asset allocation over a variety of assets depending on the performance of the financial markets.

---

\(^1\) Morning star, Portfolio Allocation as of 30th June 2011

\(^2\) Fund’s profile
http://www.morningstar.fr/fr/snapshot/snapshot.aspx?id=F0GBR04L2L
• The fund portfolio is composed of the following assets:
  o **Stocks:**
    • The fund portfolio is oriented towards French and/or Foreign securities where at least 75% of the assets should be invested in Stocks belonging to the Stocks Saving Plan “Plan D’épargne en Actions”.
    • The fund could also invest in the shares that compose the S&P500 index.
  o **Debt and Money Market Instruments**
    • The fund could invest in Euro denominated interest rate securities namely: French T-bills and Deposit Certificates The instrument could be issued by both private and public institutions.
  o **Other Funds**
    • The fund may invest up to 100% of its assets in investment funds shares whether French or European.

**Additional Protection**
• The fund could be involved in OTC (Over-the-Counter) or Exchange Traded derivatives in French and/or Foreign Markets.
• The fund may have recourse to these instruments to take exposure or to hedge against the risks related to equity/indices, interest rate risks, exchange rate risks and credit risks.\(^1\)

---
\( ^1 \) Prospectus:
### Profile summary

<table>
<thead>
<tr>
<th>Fund name</th>
<th>Type of asset</th>
<th>Type of fund</th>
<th>Subscription/Redemption Frequency</th>
<th>Protection technique</th>
<th>Valuation Method</th>
<th>Secondary trading</th>
</tr>
</thead>
</table>
| BNP Paribas Cliquet US | Equity: Risky asset: Mainly stocks and S&P 500 stocks index (min 75%). Safe assets: Government bond, money market tools & deposits. | Open-ended | N/A                               | A variation of CPPI:  
  a) Portfolio is dynamically allocated between the different components.  
  b) The protection floor is dynamic to limit the down-side risk of the units: 90% of the highest share price of the fund.  
  c) Derivatives can be used as a substitute to risky assets (to take exposure).  
  Additional Protection:  
  Derivatives are used to hedge the exposure on risky assets. | • The NAV of the fund is calculated based on forward pricing. | Yes³ |

³ Listed in La Bourse de Paris:  
DMC Dyn Flooring Fd Expo Bonds Europe
DF R EUR

- **Investment strategy:**
  - “DMC Dyn Flooring Fd Expo Bonds Europe DF R EUR” is a Sub-fund of the umbrella fund “DMC Fund”, a Luxembourg mutual investment fund.
  - The investment objective of the Sub-Fund is to achieve a long term capital increase with a low well balanced risk profile.
  - It gives access to the main bond markets of the European Union and the market of Swiss bonds. Only bonds issued or guaranteed by first class issuers will be considered.
  - The initial level of the Floor per unit of this Sub-Fund has been set at 95% of the initial issue price.
  - The Sub-Fund’s objective is to achieve an annual long term return above the Citigroup European WGBI (World Government Bond Index) expressed in the base currency. This last objective, as well as the Floor of the Sub-Fund, is not the object of a guarantee.1

- **Investors’ Profile:**
  - Taking into consideration the risk profile of the DF Sub-Funds described here above, we can say that the latter may be appropriate for conservative investors including those who are not interested in or informed about the capital market, but those who seek a potentially higher return than is available from a money market fund, but who do not want to accept the volatility inherent in equity markets.
  - It is also suitable for more experienced investors wishing to attain defined investment objectives in long-term bonds, but with pre-set risk criteria.
  - The investors should, however be prepared to accept fluctuations in value, caused by interest rates movements.
  - There will be very limited credit risk as the Sub-fund invests only in first quality issuers within a very well diversified universe.

- **Protection strategy: A variation of CPPI**
  - In order to preserve the invested capital the sub-funds adopts a strategy based on Dynamic Investment Floor.
  - The assets are managed in a way to preserve a lower limit of their value (the floor). The initial level of this floor for each “DF” Sub-Fund is set while it is launched and corresponds to a given percentage of the initial issue price (95% of the issue price for this sub-fund).
    - How the investment Floor moves:
    - If the NAV per unit rises, the floor benchmark is also increased, this in order to limit the down-side risk of the units to a given percentage, not only of the initial issue price, but also of the highest NAV that has been achieved.

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1 Fund’s profile: [http://www.morningstar.ch/ch/snapshot/snapshot.aspx?id=F0GBR06BHD](http://www.morningstar.ch/ch/snapshot/snapshot.aspx?id=F0GBR06BHD)
• The floor benchmark per unit will be raised on each Valuation Day by taking into account the performance of the net assets; in as far as the highest NAV per unit already achieved has been exceeded.
• The new floor benchmark will, as a minimum, correspond to 95% of the issue price. This strategy to limit risks must however be interpreted as an objective to be reached, the investment floor per unit is not the object of a guarantee, which goes to say, that this is in no way a guarantee that the NAV per unit will not fall below the last set investment floor.
  o Portfolio Components:
• A) Fixed short term transferable securities: This component can be considered as the Sub-Fund’s part with a low risk profile. It is mainly composed of top-quality government and non-government bonds, mostly denominated in Euros (min 2/3 of net assets). If they are denominated in another European currency or in Swiss francs, the exchange rate risk is hedged against Euros.
• B) Well diversified investments into equity and in bond markets, in medium or long term transferable securities with an anticipated performance and/or other authorized investment: E.g. financial instruments derivatives, such as financial futures and options on financial instruments available on regulated futures and options markets, operating regularly, being recognized and open to the public.
• Depending on the evolution of the NAV of a “DF” Sub-Fund, the risk part (B) is increased or reduced. Particularly in the case of a decline in the value of the assets of the risk part (B), these could be even reduced to zero in order to preserve the latest floor set per unit.

Additional protection:
• The Fund may engage in exchange traded derivatives to hedge its transactions.¹

¹ Sources:
Fund Company Website: http://www.dynagest.ch/en/dmc_fund_dynamic_flooring_expo_bonds_europe_df_eur.asp
Full prospectus: http://globaldocuments.morningstar.com/documentlibrary/Document/4efc97be6c2e22e871dd92e2ca0959e9.msdoc/original
Fund factsheet: http://www.dynagest.ch/TechDetails/EUROPE-DF-EUR.pdf
Profile summary

<table>
<thead>
<tr>
<th>Fund name</th>
<th>Type of asset</th>
<th>Type of fund</th>
<th>Subscription/Redemption Frequency</th>
<th>Protection technique</th>
<th>Valuation Method</th>
<th>Secondary trading</th>
</tr>
</thead>
</table>
| DMC Dyn Flooring Fd Expo Bonds Europe DF R EUR | **Bond:** Risky asset: Equity, medium to long term bonds and derivatives. Safe assets: Short term bonds and money market instruments (min 2/3 net assets). Cash and/or term deposits in EUR (max 1/3 of net assets) | Open-ended   | Number of units as at 31\(^{st}\) March 2010: Created: 4,481.35 Cancelled: 10,000.50 | A variation of CPPI:  
  a) The portfolio is dynamically managed between safe short-term bonds and money market instruments (min 2/3) and relatively risky long-term bonds or equity.  
  b) The protection floor is dynamic to limit the down-side risk of the units.  
  Additional protection: Derivatives are used to take exposure and/or for hedging purposes. | Yes\(^2\)            |                                                |

1 Annual Report as at 31\(^{st}\) March 2010.
2 Listed in Luxembourg Stock Exchange: http://www.bourse.lu/application?_flowId=ValueSummaryOpcFlow&cdVal=32263&cdTypeVal=OPC
Fortis B Fix 2008 Alpha Plus 01 Dis

Investment strategy
- “Fortis B Fix 2008 Alpha Plus 01 Dis” is a Sub-fund of the Umbrella fund “FORTIS B FIX 2008”.
- To achieve the stated objective, “Fortis B Fix 2008 Alpha Plus 01 Dis” would particularly select EURO investments. Thus, the fund won’t be exposed to exchange rate risk.

Dividends distribution:
- The first two dividends were fixed at 6% of the initial NAV per share and were respectively paid on 12th January 2009 and 12th January 2010.
- The amount of the six remaining dividends will depend on the performance of a basket composed of, in equal proportions, twenty stocks from international markets.

Protection strategy: A variation of Bond & Call option
- The fund uses safe assets to protect the initial capital and derivatives instruments to take exposure and to achieve capital growth.
  - Types of deposits and debt instruments:
- The fund could invest in treasury bills, bank deposits, money market instruments and debt instruments, whether private or public and domestic or foreign.
- These instruments shall at least have a rating of “investment grade”.
  - Types of derivatives:
- The underlying assets could be stocks, stock indices or other securities similar to stocks and these would involve derivatives like options or swaps to name a few.
- Depending on the fund objectives and strategies, the underlying assets could also be bonds or bond indices which would involve derivatives like interest rate swaps, credit default swaps.

Additional protection
- Derivatives that are used to achieve the investment objectives could as well be employed for hedging purposes.¹

¹ Website: http://www.bnparibas-ip.be/central/fundsheet/index.page?id=fre&p=IP_BE-NSG&mifidSegment=&shareId=2844&compartmentId=839&umbrellaid=74&currency=EUR#tab=1

Financial institution: The fund is managed by BNP Paribas Investment Partners Belgium.
Inception date: 8th January 2008.
Investment Objective: The fund allows the investors to benefit from 8 annual dividends distributions and aims to protect 100% of the initial capital, by the end of the funds tenure fixed at 1st July 2016.
Type of assets: Equity.
**Profile summary**

<table>
<thead>
<tr>
<th>Fund name</th>
<th>Type of asset</th>
<th>Type of fund</th>
<th>Subscription/Redemption Frequency</th>
<th>Protection technique</th>
<th>Valuation Method</th>
<th>Secondary trading</th>
</tr>
</thead>
</table>
| Fortis B Fix 2008 Alpha Plus 01 Dis | **Equity:** Safe assets: Deposits, debt and money market instruments. Risky assets: Mainly options on stocks and stock indices. | Open-ended   | Number of units as at 31st December 2010¹: Created: 0 Canceled: 1,660 | A variation of Bond & Call Option: 
  a) Capital protection is ensured through deposits and debt instruments. 
  b) Capital growth is achieved through options on stock and stock indices or some other types of derivatives. 
  **Additional Protection:** The derivatives that are used to take exposure may also be used for hedging purposes. | • The NAV is calculated on the first business day of each month and the 2nd working day after the 14th of each month, based on the last known prices for this evaluation. | No² |

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¹ The only annual report available in French is that of 31 December 2010:

² The Fund name was not found in Euronext Brussels website:
http://www.euronext.com
Pioneer Funds Austria - Trend Bond A

- **Investment and Protection strategy**
  - Pioneer Funds Austria - Trend Bond employs an active management strategy and invests exclusively in euro-denominated government bonds of the Euro-zone.
  - It will only purchase long term bonds (usually with a 7-10 years maturity) having a high investment grade - AAA to BBB rating.
  - The interest rate risk could be hedged up to 100%.
  - Investments in other funds are permitted to a limited extent, 10% of total assets at the most.

**Additional protection:**
Derivative instruments are used both to hedge and, to a greater extent, for active management of the fund’s strategy, namely reducing the inherent investment risks.

- **Financial institution:** The fund is managed by Pioneer Investments Austria GmbH.
- **Inception date:** 25th June 2001.
- **Investment Objective:** Fund’s objective is to achieve long term high yields by investing in Euro zone government bonds and to provide safety guards against sharp yield hikes.
- **Type of assets:** Bond.

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¹ The simplified prospectus and the fund factsheet could be downloaded from the following link: [http://download.pioneerinvestments.at/jsp/main/all/index.jsp?source=fonds&fonds=F05059&fundgroup=0&id=0&doctype=0](http://download.pioneerinvestments.at/jsp/main/all/index.jsp?source=fonds&fonds=F05059&fundgroup=0&id=0&doctype=0)
The fund was not found in Frankfurt Stock Exchange website:
http://www.boerse-frankfurt.de/en/funds/search
Funds that are under the same management company were listed.

<table>
<thead>
<tr>
<th>Fund name</th>
<th>Type of asset</th>
<th>Type of fund</th>
<th>Subscription/Redemption Frequency</th>
<th>Protection technique</th>
<th>Valuation Method</th>
<th>Secondary trading</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pioneer Funds Austria -Trend Bond A</td>
<td>Bond: Risky asset: Less than 10% net assets can be investment in other funds. Safe assets: Exclusively euro-denominated government bonds in the euro zone.</td>
<td>Open-ended</td>
<td>N/A</td>
<td>Investing in relatively safe assets: The fund invests exclusively in Euro-zone government bonds. These are of a high investment grade (AAA to BBB) rating. Additional protection: Derivatives are also used to hedge against investment risks mainly, interest rate risk.</td>
<td>No(^1)</td>
<td></td>
</tr>
</tbody>
</table>

\(^1\)The fund was not found in Frankfurt Stock Exchange website: http://www.boerse-frankfurt.de/en/funds/search
Funds that are under the same management company were listed.
<table>
<thead>
<tr>
<th>Fund's name</th>
<th>Type of assets</th>
<th>Type of fund</th>
<th>Redemption Frequency</th>
<th>Protection technique</th>
<th>Valuation Method</th>
<th>Secondary trading</th>
</tr>
</thead>
</table>
| **UK** Scottish Widows Capital Protected 10 | Equity: Safe assets: Deposits and cash Risky assets: Derivatives linked to FTSE 100 index | Limited Issue | N/A                  | A variation of Bond & Call Option:  
a) Cash investment period: participations are invested in deposits or other investment collective schemes. 
b) Growth period: fund invests in index-linked derivatives.  
**Additional protection:**
a) Derivatives are also used for hedging purposes: cross currency derivatives. 
b) Collateral of at least 100% of derivatives value is held, at any time, to cover Counterparty risk. | • The NAV is calculated based on forward pricing during the Growth Potential Period as at the valuation point (being 2.00 pm) every week (Friday). | No |
| **UK** HSBC Capital Protected 12 Retail | Mixed Assets: Risky asset: Index related derivatives. Safe assets: Cash, near cash, deposits and/or money market based collective investment schemes. | Limited Issue | N/A                  | Bond & Call Option technique: Cash Investment Period followed by a Growth Period using derivatives linked to the performance of FTSE 100 Index.  
**Additional protection:** Derivatives are also used for hedging purposes and to help achieving investment objectives. | • The NAV of the underlying funds is calculated on a daily basis using forward pricing | No |
| **UK** CMIG GA 90% Flexible | Mixed assets: Safe assets: Short term securities, money market instruments and deposits. Risky assets: Share index “Dow Jones Euro Stoxx 50” and related index futures. | Open-ended | N/A                  | A variation of CPPI:  
a) Exposure to equity and equity related securities is limited to 43.2% of the NAV. 
b) The portion of safe assets could go up to 100% of the NAV depending on the manager’s policy and market conditions.  
**Additional Protection:** Index futures and other index related derivatives are also used to hedge against the existing equity position. | • The Fund's NAV is calculated based on daily forward pricing. | No |
<table>
<thead>
<tr>
<th>Country</th>
<th>Fund Name</th>
<th>Currency</th>
<th>Overview</th>
<th>SWAP with JPMorgan</th>
<th>Capital Protected</th>
</tr>
</thead>
<tbody>
<tr>
<td>UK</td>
<td>IFDS Omnis JP Morgan Protector 80 2 A</td>
<td>-</td>
<td>Mixed assets: Safe assets: Money market instruments Risky assets: Index allocation linked to equities, bonds, currencies and commodities.</td>
<td>N/A</td>
<td>Yes</td>
</tr>
<tr>
<td>Switzerland</td>
<td>Archimedes Invest Plus Fund -CHF</td>
<td>CHF</td>
<td>Bond: Risky asset: Derivatives linked to the performance of stock indices. Safe assets: Cash and fixed income securities.</td>
<td>Open-ended</td>
<td>Number of units as at 31st December 2010: Created: 2,495 Cancelled: 1,463</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>a) At least 51% of the NAV is invested in debt securities, money market instruments and deposits.</td>
</tr>
</tbody>
</table>
| Country | Fund Name           | Actions                        | Open-ended | Number of units as at 30th November 2010: Created: 2,786,133 Canceled: 35,493 | A variation of CPPI:  
  a) The proportions of income generating assets and safe assets varies according to fund performance and market conditions.  
b) The protection floor is dynamic to limit the down-side risk of the units: 90% of the highest Share price.  
c) Derivatives can be used as a substitute to risky assets. (to take exposure)  
Additional protection: Derivatives are used to hedge the exposure on risky assets and for arbitrage. |  
|---------|---------------------|--------------------------------|------------|--------------------------------------------------------------------------------|---------------|-----------------------------|
| France  | Atout Prem’s Actions| Mixed Assets:  
Risky asset: Stocks, international bonds and currency instruments.  
Safe assets: Government bonds and Money market instruments.  
  | Open-ended | N/A  
| France  | BNP Paribas Cliquet US | Equity:  
Risky asset: Mainly stocks and S&P 500 stocks index (min 75%).  
Safe assets: Government bond, money market tools & deposits.  
  | Open-ended | N/A  
|         |                     | A variation of CPPI:  
  a) Portfolio is dynamically allocated between the different components.  
b) The protection floor is dynamic to limit the down-side risk of the units: 90% of the highest share price of the fund.  
c) Derivatives can be used as a substitute to risky assets (to take exposure)  
Additional Protection: Derivatives are used to hedge the exposure on risky assets. |  
|         |                     | The Fund NAV is calculated based on daily forward pricing: assets are valued based on the last price available prior to midday on the relevant Valuation Date.  
<p>|         |                     | The NAV of the fund is calculated based on forward pricing. | Yes | Yes |</p>
<table>
<thead>
<tr>
<th>Country</th>
<th>Name</th>
<th>Bond</th>
<th>Risky assets</th>
<th>Safe assets</th>
<th>Number of units</th>
<th>Additional protection</th>
<th>NAV calculation</th>
<th>NAV calculation details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Luxembourg</td>
<td>DMC Dyn Flooring Fd Expo Bonds Europe DF R EUR</td>
<td>Bond:</td>
<td>Risky asset: Equity, medium to long-term bonds and derivatives.</td>
<td>Safe assets: Short-term bonds and money market instruments (min 2/3 net assets). Cash and/or term deposits in EUR (max 1/3 of net assets)</td>
<td>Open-ended</td>
<td>Number of units as at 31st March 2010: Created: 4,481.35 Cancelled: 10,000.50</td>
<td>A variation of CPPI:</td>
<td>The NAV of the fund is calculated each Wednesday based on forward pricing.</td>
</tr>
<tr>
<td>Belgium</td>
<td>Fortis B Fix 2008 Alpha Plus 01 Dis</td>
<td>Equity:</td>
<td>Deposits, debt and money market instruments.</td>
<td>Risky assets: Mainly options on stocks and stock indices</td>
<td>Open-ended</td>
<td>Number of units as at 31st December 2008: Created: 7,183 Cancelled: 103</td>
<td>A variation of Bond &amp; Call Option:</td>
<td>The NAV is calculated on the first business day of each month and the 2nd working day after the 14th of each month, based on the last known prices for this evaluation.</td>
</tr>
<tr>
<td>Germany</td>
<td>Pioneer Funds Austria-Trend Bond A</td>
<td>Bond:</td>
<td>Risky assets: Less than 10% net assets can be investment in other funds.</td>
<td>Safe assets: Exclusively euro-denominated government bonds in the euro zone.</td>
<td>Open-ended</td>
<td>N/A</td>
<td>Investing in relatively safe assets:</td>
<td>The most recently published prices of assets and liabilities are used to calculate the NAV.</td>
</tr>
</tbody>
</table>
VIII. Survey of American Protected Funds

1. Funds screening -Methodology
   - The funds were selected from different sources. Each fund database and fund screener has its own ranking/ screening criteria. Hence, it was hard to establish a global ranking for the American region. We tried to offer fund ranking by country wherever possible, otherwise, when lacking data, we only give a sample of protected funds for a given country.
   - The countries were selected according to their relevance in terms of financial activity and the availability of data related to protected funds. The survey for Americas was restricted to: USA, Canada, Brazil, Chile and Mexico.
   - For USA and Canada: We referred more to Lipper screener\(^1\), but tried to complement the picture by using Morningstar as well\(^2\).
   - For Brazil and Chile: The data was found only on Lipper screener.
   - For Mexico: we used a Mexican fund screener\(^3\). We selected the four most performing funds based on the YTD return.
   - The data are relative to September 2011.

2. Survey’s selection

<table>
<thead>
<tr>
<th>Fund’s name</th>
<th>Performance</th>
<th>Type of assets</th>
<th>Total net assets (Currency of denomination)</th>
<th>Total net assets $</th>
</tr>
</thead>
<tbody>
<tr>
<td>USA Janus Protected Series-Growth A</td>
<td>Avg (YTD) -11,09%</td>
<td>Equity</td>
<td>139.1 M USD(^6)</td>
<td>139.1 M</td>
</tr>
<tr>
<td>USA Janus Protected Series-Growth A LW</td>
<td>Avg (YTD) -11,09%</td>
<td>Equity</td>
<td>139.1 M USD(^6)</td>
<td>139.1 M</td>
</tr>
<tr>
<td>USA Janus Protected Series-Growth C</td>
<td>Avg (YTD) -11,09%</td>
<td>Equity</td>
<td>139.1 M USD(^6)</td>
<td>139.1 M</td>
</tr>
<tr>
<td>USA Janus Protected Series-Growth D</td>
<td>Avg (YTD) -11,09%</td>
<td>Equity</td>
<td>139.07 M USD(^6)</td>
<td>139.07 M</td>
</tr>
<tr>
<td>USA Janus Protected Series-Growth I</td>
<td>Avg (YTD) -11,09%</td>
<td>Equity</td>
<td>139.1 M USD(^6)</td>
<td>139.1 M</td>
</tr>
<tr>
<td>USA Janus Protected Series-Growth S</td>
<td>Avg (YTD) -11,09%</td>
<td>Equity</td>
<td>139.1 M USD(^6)</td>
<td>139.1 M</td>
</tr>
<tr>
<td>USA Janus Protected Series-Growth T</td>
<td>Avg (YTD) -11,09%</td>
<td>Equity</td>
<td>139.1 M USD(^6)</td>
<td>139.1 M</td>
</tr>
<tr>
<td>USA Protected Profile 2010 Fund;Service</td>
<td>4 (lipper)</td>
<td>Mixed assets</td>
<td>10.20 M USD(^6)</td>
<td>10.2 M</td>
</tr>
<tr>
<td>USA Protected Profile 2010 Fund;Standard</td>
<td>4 (lipper)</td>
<td>Mixed assets</td>
<td>26.20 M USD(^6)</td>
<td>26.2 M</td>
</tr>
<tr>
<td>USA Protected Profile 2020 Fund;Standard</td>
<td>4 (lipper)</td>
<td>Mixed assets</td>
<td>83.20 M USD(^6)</td>
<td>83.2 M</td>
</tr>
<tr>
<td>USA Protected Profile 2030 Fund;Standard</td>
<td>4 (lipper)</td>
<td>Mixed assets</td>
<td>71.30 M USD(^6)</td>
<td>71.3 M</td>
</tr>
<tr>
<td>USA Protected Profile 2020 Fund;Service</td>
<td>3 (lipper)</td>
<td>Mixed assets</td>
<td>24.80 M USD(^6)</td>
<td>24.8 M</td>
</tr>
<tr>
<td>USA Protected Profile 2030 Fund;Service</td>
<td>3 (lipper)</td>
<td>Mixed assets</td>
<td>18.70 M USD(^6)</td>
<td>18.7 M</td>
</tr>
<tr>
<td>USA Protected Profile 2040 Fund;Service</td>
<td>3 (lipper)</td>
<td>Equity</td>
<td>13.40 M USD(^6)</td>
<td>13.4 M</td>
</tr>
<tr>
<td>USA Protected Profile 2040 Fund;Standard</td>
<td>3 (lipper)</td>
<td>Equity</td>
<td>52.60 M USD(^6)</td>
<td>52.6 M</td>
</tr>
<tr>
<td>USA Oppenheimer Principal Prot Main Street Fund III;A</td>
<td>1 (lipper)</td>
<td>Bond</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>USA Oppenheimer Principal Prot Main Street Fund III;B</td>
<td>1 (lipper)</td>
<td>Bond</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>USA Oppenheimer Principal Prot Main Street Fund III;C</td>
<td>1 (lipper)</td>
<td>Bond</td>
<td>N/A</td>
<td>N/A</td>
</tr>
</tbody>
</table>

\(^1\) [http://www.lipperleaders.com/](http://www.lipperleaders.com/)
\(^2\) For Morningstar references refer to the hyperlink within the table “Survey Selection”.
\(^3\) [http://www.fundpro.com/default.aspx](http://www.fundpro.com/default.aspx)
\(^4\) For Janus Series, data related to “Total net assets” have been collected from [http://www.morningstar.com/](http://www.morningstar.com/)
Data are relative to 15\(^{th}\) March 2012.
\(^5\) For Protected Profile Series, data related to “Total net assets” have been collected from [www.lipperleaders.com](http://www.lipperleaders.com)
Data are relative to 29 February 2012.
<table>
<thead>
<tr>
<th>Country</th>
<th>Fund Name</th>
<th>Type</th>
<th>YTD Return</th>
<th>Total Net Assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>USA</td>
<td>Oppenheimer Principal Prot Main Street Fund III</td>
<td>Bond</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Canada</td>
<td>Covington Venture Cap Protected Sr VIII</td>
<td>N/A</td>
<td>18.8 M USD</td>
<td>18.8 M</td>
</tr>
<tr>
<td>Canada</td>
<td>Dynamic Protected Dividend Value</td>
<td>Equity</td>
<td>4.6 M CAD</td>
<td>4.6 M</td>
</tr>
<tr>
<td>Canada</td>
<td>Dynamic Protected Global Value</td>
<td>Equity</td>
<td>1.5 M CAD</td>
<td>1.5 M</td>
</tr>
<tr>
<td>Canada</td>
<td>National Bank Protected Growth Balanced</td>
<td>Mixed assets</td>
<td>1.39 M</td>
<td>1.40 M</td>
</tr>
<tr>
<td>Canada</td>
<td>National Bank Protected Canadian Bond</td>
<td>Bond</td>
<td>0.56 M</td>
<td>0.57 M</td>
</tr>
<tr>
<td>Canada</td>
<td>National Bank Protected Canadian Equity</td>
<td>Equity</td>
<td>2.1 M</td>
<td>2.11 M</td>
</tr>
<tr>
<td>Canada</td>
<td>National Bank Protected Global</td>
<td>Equity</td>
<td>0.77 M</td>
<td>0.78 M</td>
</tr>
<tr>
<td>Canada</td>
<td>National Bank Protected Retirement Balanced</td>
<td>Mixed assets</td>
<td>1.92 M</td>
<td>1.94 M</td>
</tr>
<tr>
<td>Brazil</td>
<td>Citifirst Ibovespa Capital Protegido II FI Mult</td>
<td>Bond</td>
<td>47.24 M</td>
<td>26.35 M</td>
</tr>
<tr>
<td>Brazil</td>
<td>Prothea FICFI Multimercado</td>
<td>Mixed assets</td>
<td>2.65 M</td>
<td>1.48 M</td>
</tr>
<tr>
<td>Brazil</td>
<td>Bradesco FI Mult Principal Protegido</td>
<td>Mixed assets</td>
<td>10.24 M</td>
<td>5.71 M</td>
</tr>
<tr>
<td>Brazil</td>
<td>Bradesco Prime FI Mult Principal Protegido 2</td>
<td>Bond</td>
<td>8.67 M</td>
<td>4.84 M</td>
</tr>
<tr>
<td>Brazil</td>
<td>Bradesco FI Mult Principal Protegido 1</td>
<td>Mixed assets</td>
<td>6.69 M</td>
<td>3.73 M</td>
</tr>
<tr>
<td>Brazil</td>
<td>Bradesco Prime FI Multimercado Principal Protegido</td>
<td>Mixed assets</td>
<td>18.78 M</td>
<td>10.47 M</td>
</tr>
<tr>
<td>Brazil</td>
<td>Citifirst Ibovespa Capital Protegido III FI Mult</td>
<td>Bond</td>
<td>71.91 M</td>
<td>40.11 M</td>
</tr>
<tr>
<td>Brazil</td>
<td>FI Votorantim Capital Protected III Mult CrdPri</td>
<td>Mixed assets</td>
<td>77.12 M</td>
<td>43.02 M</td>
</tr>
<tr>
<td>Brazil</td>
<td>FICFI Votorantim Capital Protected III Mult CrdPri</td>
<td>Mixed assets</td>
<td>75.70 M</td>
<td>42.33 M</td>
</tr>
<tr>
<td>Chile</td>
<td>Larrainvial Proteccion APV-A</td>
<td>Mixed assets</td>
<td>4168.22 M</td>
<td>8.58 M</td>
</tr>
<tr>
<td>Chile</td>
<td>Larrainvial Proteccion A</td>
<td>Mixed assets</td>
<td>32647.82 M</td>
<td>67.18 M</td>
</tr>
<tr>
<td>Chile</td>
<td>Larrainvial Proteccion F</td>
<td>Mixed assets</td>
<td>1018.78 M</td>
<td>2.10 M</td>
</tr>
<tr>
<td>Mexico</td>
<td>STGAR-1 B1 (Santander)</td>
<td>N/A</td>
<td>813.88 M</td>
<td>63.87 M</td>
</tr>
<tr>
<td>Mexico</td>
<td>STGAR-2 B1 (Santander)</td>
<td>N/A</td>
<td>730.74 M</td>
<td>57.34 M</td>
</tr>
<tr>
<td>Mexico</td>
<td>TRIPLE1 GB (BBVA Bancomer)</td>
<td>N/A</td>
<td>3.90 B</td>
<td>306.04 M</td>
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<tr>
<td>Mexico</td>
<td>TRIPLE2 GB (BBVA Bancomer)</td>
<td>N/A</td>
<td>3.61 B</td>
<td>283.28 M</td>
</tr>
</tbody>
</table>

Table 13: Pre-selection of America Capital Protected Funds

---

1. For Covington Venture Cap Protected Series, data related to “Total net assets” have been collected from: `http://quote.morningstar.ca/quicktakes/Fund/f_ca.aspx?t=F000000QUX&region=CAN&culture=en-CA`. Data are relative to 9th March 2012.
2. For National Bank Protected Series, data related to “Total net assets” have been collected from: `www.lipperleaders.com`. Data are relative to 29 February 2012. 3. Data related to the “Total net assets” of Brazil capital protected funds have been collected from `www.lipperleaders.com`. Data are relative to 29 February 2012. There are some funds whose data have been collected from `http://www.bloomberg.com`. The funds in question are “Citifirst Ibovespa Capital Protegido II FI Mult”, “FI Votorantim Capital Protected III Mult CrdPri”, “FICFI Votorantim Capital Protected III Mult CrdPri” (Data are relative to 13th March 2012) and “Santander FI Capital Protegido Van Gogh Multi” (Data are relative to 3rd March 2012).
5. For TRIPLE1 GB and TRIPLE2 GB data related to “Total net assets” have been collected from `http://mx.finance.yahoo.com/q?s=TRIPLE1GB.MX&ql=0` and `http://mx.finance.yahoo.com/q?s=TRIPLE2GB.MX&ql=0` (as of 31st March 2012) respectively.
3. Final selection

- The number of funds to be scrutinized was finalized based on the relevance of the country. Hence, we have included four funds from USA, two from Canada, two from Brazil, one from Chile and two from Mexico.

- USA: If we select only the well-ranked funds we will be restricting our study to one company (Protected Profile Fund) and to only one management style. Therefore, we tried to take samples from different companies, even the underperforming Janus.

- Canada: The same was applied to Canada, but “Dynamic Protected” funds were excluded due to the non-availability of essential documents (prospectus).

- Brazil: We were unable to take a sample from each company but we kept Citifirst and Bradesco. Stander was not scrutinized due to the non-availability of the prospectus.

- Mexico: Only the two most performing funds were kept.

- Chile: We took the most performing fund.

<table>
<thead>
<tr>
<th>Fund's name</th>
<th>Performance</th>
<th>Type of assets</th>
<th>Total net assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>USA Protected Profile 2010 Fund;Service</td>
<td>4 (lipper)</td>
<td>Mixed assets</td>
<td>10.20 M USD</td>
</tr>
<tr>
<td>USA Protected Profile 2010 Fund;Standard</td>
<td>4 (lipper)</td>
<td>Mixed assets</td>
<td>26.20 M USD</td>
</tr>
<tr>
<td>USA Oppenheimer Principal Prot Main Street Fund III;A</td>
<td>1 (lipper)</td>
<td>Bond</td>
<td>N/A</td>
</tr>
<tr>
<td>USA Janus Protected Series-Growth A</td>
<td>(YTD)-11.09%</td>
<td>Equity</td>
<td>139.1 M USD</td>
</tr>
<tr>
<td>Canada National Bank Protected Growth Balanced</td>
<td>2 (lipper)</td>
<td>Mixed assets</td>
<td>1.39 M CAD</td>
</tr>
<tr>
<td>Canada Covington Venture Cap Protected Sr IX</td>
<td>(YTD) 2.51%</td>
<td>N/A</td>
<td>18.80 M USD</td>
</tr>
<tr>
<td>Brazil Citifirst Ibovespa Capital Protegido II Fi Mult</td>
<td>5 (lipper)</td>
<td>Equity</td>
<td>329.27 M BRL</td>
</tr>
<tr>
<td>Brazil Bradesco FI Mult Principal Protegido</td>
<td>1 (lipper)</td>
<td>Mixed assets</td>
<td>10.24 M BRL</td>
</tr>
<tr>
<td>Chile Larrainvial Proteccion APV-A</td>
<td>4 (lipper)</td>
<td>Mixed assets</td>
<td>4168.22 M CLP</td>
</tr>
<tr>
<td>Mexico STGAR-1 B1 (Santander)</td>
<td>(YTD) 13.243%</td>
<td>N/A</td>
<td>813.88 M MXN</td>
</tr>
<tr>
<td>Mexico TRIPLE1 GB (BBVA Bancomer)</td>
<td>(YTD) 3.747%</td>
<td>N/A</td>
<td>3.90 B MXN</td>
</tr>
</tbody>
</table>

Table 14: Final selection of America Capital protected Funds
In the final selection, 7/11 of the scrutinized funds are listed and 8/11 are open-ended. Hence, we can say that most of the funds are listed and open-ended.

We noticed that overall, every country in the selection favors a specific protection style. In the US, it is common practice to structure the capital protected funds around a CPPI mechanism combined with an insurance policy provided by a third party. That guarantees a full return of investors’ principal at maturity. In fact, all the funds short listed in the US follow this model, except for the “Protected Profile 2010 Fund” that does not use a warranty agreement, probably because it is a retirement product offered by an insurance company.

According to Morningstar fund analysis (2011), these funds were found to be expensive zero-coupon treasury bonds because the insurance company that provides the protection guarantee insists on high allocations to cash and bonds so that they won’t have to disburse any amount. This explains the limited popularity of capital protected funds in the US. The “Oppenheimer Principal Prot Main Street Fund III” perfectly illustrates the situation. The fund was launched in 2004 with the objective of protecting the principal and realizing high total returns through equity index investments and US government securities under the CPPI. When the crisis hit, the fund completely and irreversibly converted to a debt fund in 2009. Moving to cash was dictated by the warranty provider in order to not take exposure to equity and reimburse investors in case of capital loss. But from the clients side, the dissatisfaction with an expensive debt fund, low returns and cash lockout was very evident: 120263 units cancelled against 9141 created in the year 2011.

The “Janus Protected Series-Growth A” fund, which was established in late 2011, seems to have learnt from the imperfections of its predecessors. Most importantly, the investors are not obliged to remain invested for any specific duration of time to keep the capital protection; whereas in the past they would forego it for early exits. Janus has also given the warranty provider added incentives to prevent the fund from being a debt fund with added protection costs. The warranty provider fee is actually based on assets under management so it has the incentive to navigate the fund in a way that keeps the shareholders invested. Otherwise, they can withdraw at any time if the fund remains in cash. Furthermore, the fund’s board has the authority to liquidate the fund or temporary waive the fees if the fund stays in cash for an extended period. For the moment, the units issued surpass the cancelled: 4074 against 174. Finally, Janus has recourse to an enhanced version of CPPI as compared to its peers; the one that employs a “Dynamic Protection Floor”.

From the two funds scrutinized by the survey, we can say that the capital protected fund industry is facing some difficulties in Canada. Both the “National Bank Protected Growth Balanced” and the “Covington Venture Cap Protected Sr IX” did not issue any units while 162 656 and 120 000 were cancelled respectively in 2010. Generally speaking, the protection techniques deployed are kind of traditional. “National Bank Protected Growth Balanced” created in 1998, deploys the CPPI in its simplest version. “Covington Venture Cap Protected Sr IX” established in 2007, has a conservative approach that is rather inspired from Bond &Call Option: 70% is invested in bonds provided that the proceeds will bring the capital to its initial value. The remaining portion is invested in equity, which avoids the cash lockout posed by the CPPI and allows full exposure to market upside in the case of recovery. Curiously, both the funds are closed and not listed which might lead to a liquidity issue in addition to the massive units’ cancellations.

The protected fund industry appears to be better off in Brazil as compared to North America, be it in terms of numbers of products issuers, numbers of funds or the assets size. The
two funds scrutinized in this survey reveal that the industry apparently favors the Bond & Call Option approach. This may seem understandable for “Bradesco FI Mult Principal Protegido”, established since 1997, but it may look less common for new funds like the “Citifirst Ibovespa Capital Protegido II FI Mult” launched in 2010. Interestingly, “Bradesco FI Mult Principal Protegido” deploys the Bond & Call Option with a new addition: dynamic asset allocation. The option-linked investments intended to gain exposure to growth assets may vary according to market conditions. Ultimately, the tenure of “Citifirst Ibovespa Capital Protegido II FI Mult” is extremely short, less than a year, which reaffirms the finding about the funds features post crisis.

Just like in Brazil, the two short listed funds in Mexico belong to global financial institutions. The two have been established recently; “TRIPLE1 GB BBVA Bancomer” in 2008 and “STGAR-1 B1 Santander” in 2010. They both have a short investment term: less than a year to benefit from the capital protection. And they both have recourse to highly graded fixed-income debt instruments as a means to preserve their principal.

“Larrainvial Proteccion APV-A” the Chilean fund also adopts a conservative approach but uses CPPI. It is a listed open-ended fund, yet the volume of the traded shares is extremely high. This could probably be justified by their low unit price.

We also found that there is diversity in the asset types in the American region and the valuation method is usually based on forward pricing. All these details are clarified for each selected fund in the next section, where we discuss the results of the survey.

4. Survey results

a. The Approach

- For each fund we tried to collect the respective prospectus and the latest annual report, if available.
- In the prospectus, we looked for information related to: type of fund, type of assets, protection strategy and fund valuation.
- For the funds where the type of assets was not mentioned, we scrutinized the respective prospectus and Morningstar (www.morningstar.com) to confirm their asset allocation.
- In the annual report we confirm the type of assets by examining the asset allocation, and if the information is available we try to address the redemption/subscription frequency. This is presented in the form of units created or canceled during the financial year. If such data is not disclosed, we try by the means of simplistic calculation to deduce it. For instance, we look for subscription proceeds and redemption payments for the financial year, then we divide it by the average (NAV/share) or, if it is not available, by the latest NAV. We mention (N/A) in the Redemption/subscription frequency cell, if the information is not available or if we were unable to find the annual report.
- Pertaining to secondary trading, we browse the respective stock exchange markets and check whether the ISIN code of the fund or its name is listed in the market. If so, we consider that fund units are traded in the secondary market, otherwise no.
b. Funds’ profiles

**LVIP Protected Profile 2010 Fund; Standard Class**

### Investment strategy

**Structure.**
- The Profile Fund operates under a ‘fund of funds’ structure, whereby under normal market conditions the fund will invest 80% or more of its assets in underlying funds. These underlying funds generally have a passive investment style (i.e index funds).
- The Profile Fund’s largest allocation will be to underlying funds that primarily invest in domestic and foreign equity securities. A smaller allocation will be made to underlying funds that primarily invest in domestic fixed income securities.

**Protection strategy: A variation of CPPI**
- The adviser will regularly evaluate the level of market volatility to determine the desired level of overall economic equity exposure to be held by the Profile Fund (maximum target equity).
- Furthermore, the asset allocation varies depending on the maturity of the fund. The Profile Fund is actually designed for investors planning to retire close to the year 2010 (target date). The target date refers to the approximate year an investor in the Profile Fund would plan to retire and is likely to stop making new investments in the fund. The investment strategy becomes more conservative over time as the target date draws closer and the target date occurs.
  - **Until normal circumstances till target date (2010)**
    - The fund invests at least 80% of its net assets in underlying funds, 55% of which will be in underlying funds that invest primarily in equity securities and 45% in underlying funds that invest primarily in fixed income securities.
    - As a result of the protection sub-strategy (see below), the remaining portion of the fund’s net assets is expected to be invested in exchange-traded futures contracts, cash collateral to support these contracts and/or high-quality short term money market investments.
    - The asset class allocations in the Profile Fund’s model are not expected to vary from the Fund’s current investment strategy by more than (plus or minus) 10% in any given year.
  - **From the target date (2010) till the landing date (2030)**
    - The Profile Fund’s allocation to underlying funds that invest in equity securities will continue to decline until approximately 20 years after its target date, when its allocations to underlying funds among different types of assets will become fixed (landing date). Thus, the landing date for the Profile Fund is approximately 2030.
    - The Profile Fund’s allocation to underlying funds at the landing date is expected to be

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**Financial institution:** The fund is established by Lincoln Financial group as part of Lincoln Variable Insurance Products Trust.

**Inception date:** 30th April 2007.

**Investment Objective:** To seek the highest total return over time with an increased emphasis on capital preservation as the target date approaches. Thereafter, an emphasis will be placed on high current income with a secondary focus on capital appreciation.

**Type of assets:** Mixed assets, through the underlying funds, the Profile Fund owns a diversified mix of equity securities (stocks) and fixed income securities (bonds).
at least 80%, 25% of which will be in underlying funds that invest primarily in equity securities and 75% in underlying funds that invest primarily in fixed income securities.

- Because of the protection sub-strategy, the portion not invested in underlying funds will be invested in exchange-traded futures contracts, cash collateral to support these contracts and/or high-quality short-term money market investments.
- However, the net economic exposure to equities at the landing date may vary between 0% in extreme market conditions and 25% in more benign markets. Under normal market conditions, the adviser expects the fund’s total economic exposure to equities at the landing date to be between 15% and 25%.

Protection sub-strategy:

- The Fund also employs an actively managed risk-management overlay that invests in exchange traded futures to hedge against equity market downside risk. The sale of a futures contract enables the fund to lock in a price at which it may sell the financial instrument and protect against declines in the value of the underlying funds that primarily invest in equities.
- The adviser may also periodically utilize long positions (purchase exchange-traded futures contracts) to increase the overall level of economic exposure to equity securities held by the fund at any given time, typically where the fund is holding idle cash that is awaiting investment in underlying fund.

LVIP Protected Profile 2010 Fund; Service Class:

LVIP Protected Profile 2010 Fund Standard Class and Service Class are identical, except that Service Class shares are subject to a distribution fee, which has been adopted pursuant to a distribution and service plan. The Trust offers shares to insurance companies for allocation to some of their variable contracts. The Trust pays the Trust’s principal underwriter, Lincoln Financial Distributors, Inc. (LFD), out of the assets of the Service Class, for activities primarily intended to sell Service Class shares or variable contracts offering Service Class share.¹

¹ Sources:
### Profile summary

<table>
<thead>
<tr>
<th>Fund name</th>
<th>Type of asset</th>
<th>Type of fund</th>
<th>Subscription/Redemption Frequency</th>
<th>Protection technique</th>
<th>Valuation Method</th>
<th>Secondary trading</th>
</tr>
</thead>
</table>
| LVIP Protected Profile 2010 Fund; Standard Class | Mixed assets: Index funds investing in equity Risky assets: Index funds investing in fixed incomes securities, and high short term money market investments. | Open-ended   | Number of units: Created: 869 Cancelled: 482 (see note1) | A variation of CPPI: 
a) Asset allocation varies depending on market conditions.  
b) Asset allocation becomes more conservative when the fund approaches maturity, the landing date 2030. 
Sub protection technique: 
a) Derivatives are also used for hedging purposes: cross currency derivatives.  
b) They are also used for Tactical asset allocation: cost reduction. | No                         | No                |
| LVIP Protected Profile 2010 Fund; Service Class |                                                  |              | Number of units: Created: 185 Cancelled: 290 (see note2) |                                                                                     |                           |                   |

### Types of fund

- Note 1: We calculate the number of Standard units created or canceled by the end of the year 2010 as:
  - Number of units created: value of units sold during the period / Per Share NAV end of the year ($)= 9,167,248 / 10,553= 869
  - Number of units cancelled: value of units redeemed during the period / Per Share NAV end of the year ($)= 5,091,329 / 10,553= 482
- Note 2: Number of Service units created or canceled by the end of the year 2010:
  - Number of units created: value of units sold during the period / Per Share NAV end of the year ($)=2,037,981 / 11,024= 185
  - Number of units cancelled: value of units redeemed during the period / Per Share NAV end of the year ($)=3,198,987 / 11,024= 290
Oppenheimer Principal Prot Main Street Fund III:A

Investment strategy

Structure:
- It is a ‘Fund of funds’ structure that invests in equity related index funds as it also invests in US government securities. However, from January, the fund started investing only in debt portfolio.
- The fund has an offering period, a warranty period and a post warranty period.

Offering period: The fund shares were offered during the offering period (7 October 2004 to 10 December 2004) but not during the warranty period, except in connection with the reinvestment of dividends and distributions.

Warranty period and protection strategy:
- During the warranty period (16 December 2004, 16 December 2011—the “Maturity Date”) the fund will primarily seek capital preservation and secondarily, a high total return.
- The protection strategy looks like a variation of CPPI
- Prior to 12 January 2009, the fund used to allocate its assets between an equity portfolio (investing in equity index funds) and a debt portfolio (US government securities). Under the warranty formula, between zero and 100% of the fund’s assets can be allocated to equity portfolio.
- The Warranty agreement contains a mathematical formula (The Warranty Formula) that provides the maximum amount of the fund’s assets to be invested in equity portfolio on any given day during the warranty period.
- 12 January 2009 and onwards, the fund’s assets have been completely and irreversibly converted to debt portfolio, pursuant to the Warranty formula (Probably due to uncertain market conditions). Debt securities have a maturity that is nearly equal to the period remaining in the warranty period.
- Effective 30 June 2009, the fund has entered into a Financial Warranty Agreement whereby the “Warranty provider: Main Place LLC” issued a financial guarantee to the fund, under certain conditions. For instance, the fund should satisfy the conditions of the warranty agreement including the application of the “Warranty Formula”.

Post Warranty Period:
- After the maturity date (end of warranty period), one may redeem his shares or keep them invested within the fund. During the post warranty period, the fund may invest its assets in shares of the underlying fund (Oppenheimer Main street fund: a mutual fund that invests in common US stocks)¹.

¹ Summary prospectus: https://ifp.ifunddirect.com/viewer/cik/C000020557/summary_prospectus
## Profile summary

<table>
<thead>
<tr>
<th>Fund name</th>
<th>Type of asset</th>
<th>Type of fund</th>
<th>Subscription/Redemption Frequency</th>
<th>Protection technique</th>
<th>Valuation Method</th>
<th>Secondary trading</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oppenheimer Principal Prot</td>
<td>Bonds</td>
<td>Closed</td>
<td>Number of units: Created: 9,141</td>
<td>A variation of CPPI:</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Main Street Fund III;A</td>
<td>Safe assets: 100% US government obligation from 12th January 2009 and onward.</td>
<td></td>
<td>Cancelled: 120,263¹</td>
<td>a) Asset allocation varies depending on market conditions.</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>b) As from 12th January 2009 the fund converted all its assets to bonds.</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Additional protection:</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>The fund entered into a “financial warranty” with a third party: Main Place LLC.</td>
<td></td>
<td></td>
</tr>
<tr>
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</tbody>
</table>

¹ Annual Report, 31st August 2011: https://ifp.ifunddirect.com/viewer/cik/C000020557/annual#
Janus Protected Series - Growth A

Investment strategy

- **Protected NAV** is the protection feature of the fund and is calculated at 80% of the highest previously achieved NAV per share class, reduced for dividends, distributions, extraordinary expenses and certain extraordinary items. The fund is designed in such a way that the NAV, excluding adjustments, will not fall below the protected NAV. If the effective NAV per share is less than the protected NAV, the fund would liquidate. Other funds call it the *dynamic protection floor*.

- **Protection Component** is the portion of Janus protected series — Growth that consists of cash, cash equivalents and U.S. treasuries less the net notional value of short equity index futures.

- **Equity Component** is the portion of Janus protected series — Growth that consists of the market value of equity securities and options plus the net notional value of equity index futures.

Protection strategy: A variation of CPPI

- **When markets are rising**
  - A larger percentage of the Fund holdings may be moved into the Equity Component (up to 100%) to capture some portion of the growth potential. Because of the reallocation process, the Fund’s performance may lag the market in a market upturn.
  - The NAV is also likely to rise. Each time the NAV reaches a new high price, the Protected NAV locks in at 80% of the higher level

- **In falling markets**
  - The portfolio Manager has the flexibility to move money into the protection component (e.g., cash and U.S. treasuries—up to 100% of the portfolio) to help preserve the NAV.
  - During a downturn, the NAV is also likely to decline. However, by design the NAV should stay above the protected NAV, hence there is a level of protection for the investment.

Additional protection strategy:

- In order to maintain this protection, the fund has entered into a capital protection agreement with BNP Paribas Prime Brokerage Inc., a U.S. registered broker-dealer (the “capital protection provider”) with protection backed by BNP Paribas, to provide capital protection to the fund. The capital protection agreement currently covers outstanding shares of each class of shares offered by the fund having an aggregate protected NAV (the “aggregate protected amount”) of up to $1.5 billion. If the current NAV is below the protected NAV when shares are redeemed, the protection provider will pay the necessary amount to the fund to reach the protection level.¹

¹ Prospectus: https://janus.onlineprospectus.net/janus/MOB_library/MOB_data/LIB_SummaryProspectus/STATISIProtected_Series-Growth15FACTIT/STATISIProtected_Series-Growth15FACTIT.pdf
## Profile summary

<table>
<thead>
<tr>
<th>Fund name</th>
<th>Type of asset</th>
<th>Type of fund</th>
<th>Subscription/Redemption Frequency</th>
<th>Protection technique</th>
<th>Valuation Method</th>
<th>Secondary trading</th>
</tr>
</thead>
</table>
| Janus Protected Series - Growth A | **Equity:** Equity securities and options.  
**Safe assets:** Cash, cash equivalents and U.S. treasuries | Open-ended | Number of units:  
Created: 4,074  
Cancelled: 174¹ (see note1) | A variation of CPPI:  
a) Asset allocation varies depending on market conditions.  
b) The protection floor is dynamic due to the “protected NAV”.  
Additional protection: The fund entered into a “capital protection agreement” with a third party - BNP Paribas. | Yes | |

### Note 1
- We calculate the number of Standard units created or canceled as of 30th September 2011 as:
  - Number of units created: value units sold during the period/ NAV per share($) = 35,082/ 8.61 = 4074
  - Number of units cancelled: value units redeemed during the period/ NAV per share($) = 1495/ 8.61 = 174

---

¹ Annual Report:  
National Bank Protected Growth Balanced Fund

- **Investment strategy**
  - The fund invests primarily in a combination of term deposits, money market instrument, mortgage loans guaranteed, government bonds and debentures, and shares of Canadian and foreign corporations\(^1\).

**Protection strategy:**
- The fund has recourse to CPPI, depending on market conditions.

**Additional protection:**
- The fund guarantees additional protection by using derivatives to hedge its portfolio exposures\(^2\).
- The second protection layer is the one insured by the National Bank Life Insurance Company, the insurance company that guarantees the value of the National Bank Protected Fund units\(^3\).

---

### Profile summary

<table>
<thead>
<tr>
<th>Fund name</th>
<th>Type of asset</th>
<th>Type of fund</th>
<th>Subscription/Redemption Frequency</th>
<th>Protection technique</th>
<th>Valuation Method</th>
<th>Secondary trading</th>
</tr>
</thead>
</table>
| National Bank Protected Growth Balanced Fund | Mixed assets: Safe assets: Term deposits, money market instruments, mortgage loans guaranteed, government bonds and debentures, Risky assets: Foreign and Canadian equity (more than 50%) | Closed since March 31, 2005 | Number of units: Created: 0 Cancelled: 162,656 (see note1) | A variation of CPPI: Change portfolio composition depending on Market conditions. Additional Protection: a) Additional layer of protection is in place by using derivatives for hedging b) Moreover, an insurance company is appointed to protect the initial capital. | • The NAV of the fund is calculated based on forward pricing.  
• The NAV is established at 4pm on the working days of Toronto Stock Exchange. | N/A |

### Note 1
- We calculate the number of Standard units canceled as of 31st December 2010 as:
  - Number of units cancelled: value units redeemed during the period/ NAV per share($) = 1,899,821/11.68 = 162,656

---

Covington Venture Cap Protected Sr IX

**Investment strategy**
- The Fund intends to invest primarily in emerging, high-growth, companies in Ontario. It insists on investment diversification by ensuring a balanced exposure to a variety of sectors (the fund’s limits its investment to 35% of any single industry). Besides, it intends to develop and grow investee businesses in cooperation with strategic relationships introduced by Covington Capital Corporation.

**Protection strategy:**
- Investments will be structured primarily as equity in addition to convertible debt.
- To achieve the objective of preserving and returning an investor’s initial subscription price of shares, the Fund will subscribe to Zero-Coupon Bonds and/or Qualifying Bonds having an aggregate payment obligation at the capital repayment date equal to the full amount of the subscription price paid by those shareholders. (Approximately 70% of the net proceeds of the initial offering).
- The other part of the initial capital will be invested in eligible investments of eligible businesses or reserves within the meaning of those terms in the Federal Tax Act and the Ontario Act.

**Financial institution**: The fund is managed by Covington Capital.

**Inception date**: 13\textsuperscript{th} November 2007.

**Investment Objective**: (i) To realize long-term capital appreciation on all or part of its investment portfolio by investing in small to medium sized privately held enterprises based in Ontario. (ii) On the remainder of its investment portfolio, to preserve and return an investor’s initial subscription price paid for the fund’s shares.

**Type of assets**: Equity.

---

### Profile summary

<table>
<thead>
<tr>
<th>Fund name</th>
<th>Type of asset</th>
<th>Type of fund</th>
<th>Subscription/Redemption Frequency</th>
<th>Protection technique</th>
<th>Valuation Method</th>
<th>Secondary trading</th>
</tr>
</thead>
<tbody>
<tr>
<td>Covington Venture Cap Protected Sr IX</td>
<td>Equity: Safe assets: Zero-Coupon Bonds. Risky assets: Shares in Ontario high growth companies.</td>
<td>Limited¹</td>
<td>Number of units: Created: 0 Cancelled: 120,000 (see note 1)</td>
<td>Bond + equity (similar to Bond + Call Option): a) About 70% of the capital is invested in zero coupon bonds; so that the aggregate payment obligation will be equal to the capital invested. b) The remaining capital portion is invested in private equity.</td>
<td>• The NAV of the fund is calculated based on forward pricing. The investments are valued at closing market price at which they can be bought and sold. • A published market will not exist for many of the investments made by the Fund. The Fund has adopted a method of valuing both those investments for which a published market exists and those for which a published market does not exist. • Under Federal and Ontario requirements, the Fund is required to obtain, on an annual basis, a valuation by an independent qualified person, of the NAV. The requirement is satisfied by engaging Ernst &amp; Young LLP, the Fund’s independent auditors</td>
<td>No</td>
</tr>
</tbody>
</table>

### Note 1
- We calculate the number of Standard units canceled as of 31st July 2010 as²:
  - Number of units cancelled: value units redeemed/ NAV per share($) = 120,000/10.20 = 11,765

¹ The “passive” limited partners fund pro rata portions of their commitments when the “general” partner (the private equity fund) has identified an appropriate opportunity, which may be venture capital to finance new products and technologies, expanding working capital, making acquisitions, financing leveraged buyouts (LBOs), and other investments in which the equity is not publicly traded.

Citifirst Ibovespa Capital Protegido II FI Mult

- **Investment strategy**
  - The FUND adopts strategies based on derivatives to protect the initial capital and / or get a percentage of the IBOVESPA (the index).
  - The operations will start on January 28, 2010 (“HOME STRATEGY DATE”) and end on July 28, 2011 (“EXPIRATION DATE OF THE STRATEGY”). The duration between the Start Date and End Date of the STRATEGY, is defined as “TERM STRATEGY.”

**Protection strategy: (A variation of bond and call structure)**
- The fund allocates a portion of its portfolio to fixed income assets: Government bonds, issued by National Treasury and / or the Central Bank of Brazil, Derivative contracts and Repo operations backed by government securities. Bonds and derivatives should mature by the Termination Date of the Strategy, and the projected value of the fixed assets plus their yield should be equivalent to the value of initial assets of the FUND.
- Another portion of the portfolio is allocated to options on IBOVESPA, where the maturity date is the Termination Date of the Strategy. The expected return is linked to IBOVESPA.¹

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¹ Prospectus: https://www.brasil.citibank.com/JPS/content/pdf/Prosp_%20IBOV_Cap_Proteg_II.pdf
### Profile summary

<table>
<thead>
<tr>
<th>Fund name</th>
<th>Type of asset</th>
<th>Type of fund</th>
<th>Subscription/Redemption Frequency</th>
<th>Protection technique</th>
<th>Valuation Method</th>
<th>Secondary trading</th>
</tr>
</thead>
</table>
| Citifirst Ibovespa Capital Protegido II FI Multimercado | Equity: risky assets: Options linked to IBOVESPA index. Safe assets: Government securities and fixed income derivatives. | Open-ended   | N/A (Annual report not available) | A variation of Bond + Call Option:  
  a) Investing in safe assets so that their final value plus the yield is equivalent to the value of initial fund assets.  
  b) Investing in option linked to IBOVESPA to realize a return linked to the index. | Yes              |                  |

Bradesco Fi Mult Principal Protegido

Investment strategy
- The Fund will allocate its assets in public and private fixed-income securities while also seeking positions in equity and fixed-income derivatives.
- The fund may limit its exposure to derivatives and modify its asset allocation if market conditions are not favorable, the exposure could be 0% of total assets.
- Similarly, the fund can modify the allocation to fixed income assets depending on credit risk rating, political matters... The percentage can be reduced to 0%.
- The protection technique is a combination of “Dynamic asset allocation” and “Bond & Call option technique”.

Protection strategy:
- The fund invests in fixed income securities, after 63 days the funds allocate the yielded interest in options linked to BOVESPA index.
- In rising markets, the options may be exercised and the fund will receive a percentage of the variation IBOVESPA positive return in the period of 63 days.
- In falling markets, these options lose their value but the invested capital will be maintained.¹

Financial institution: The fund is managed by Banco Bradesco S.A. (Bradesco Bank).
Inception date: 15th August 1997.
Investment Objective: The Fund’s objective is to achieve capital growth while protecting the principal.
Type of assets: Bond.

<table>
<thead>
<tr>
<th>Fund name</th>
<th>Type of asset</th>
<th>Type of fund</th>
<th>Subscription/Redemption Frequency</th>
<th>Protection technique</th>
<th>Valuation Method</th>
<th>Secondary trading</th>
</tr>
</thead>
</table>
| **Bradesco FI Mult Principal Protegido** | **Bond:** Risky assets: Options linked to IBOVESPA index. Safe assets: Public/private fixed income securities and fixed income derivatives. | Open-ended   | N/A (Annual report not available) | A variation of Bonds and Call + dynamic asset allocation:  
  a) After 63 days of investment in fixed income securities, the yield is invested in options linked to IBOVESPA.  
  b) Participation in equity securities could be reduced to 0% in falling markets. | No               | Yes               |

- The NAV of the fund is calculated based on forward pricing.
Larrainvial Proteccion APV-A

➤ Investment strategy

Protection strategy
• The fund invests in fixed income securities (private or public) and in equity. The fund does not exclude international investments.
• The asset allocation is dynamic depending on market condition. In very volatile markets equity can be reduced to 0% of total assets. Similarly, debt instruments can be as low as 0% depending on market behavior. For the moment, the fund opts for limited risk, since 80% of its portfolio is invested in debt instruments.

Additional protection:
• In order to hedge the risk related to its investment in bonds and equity, the fund has recourse to derivatives. However, limits are set for these types of operations. For instance, the value of option premium should not exceed 5% of the asset value of the fund.¹

➤ Financial institution: The fund is managed by LARRAIN VIAL ADMINISTRADORA GENERAL DE FONDOS S.A
➤ Inception date: 15th July 2005.
➤ Investment Objective: The Fund’s objective is capital appreciation. The Fund invests in fixed income securities and Equity. Additionally, the fund may invest in derivative instruments.
➤ Type of assets: Mixed assets.

### Profile summary

<table>
<thead>
<tr>
<th>Fund name</th>
<th>Type of asset</th>
<th>Type of fund</th>
<th>Subscription/Redemption Frequency</th>
<th>Protection technique</th>
<th>Valuation Method</th>
<th>Secondary trading</th>
</tr>
</thead>
<tbody>
<tr>
<td>Larrainvial Proteccion APV-A</td>
<td><strong>Mixed asset</strong>: Equity. <strong>Risky asset</strong>: Equity. <strong>Safe assets</strong>: Public/private fixed income securities, cash.</td>
<td>Open-ended</td>
<td>Number of units: Created: 55,216,793 Cancelled: 35,751,571&lt;sup&gt;1&lt;/sup&gt;</td>
<td><strong>A variation of CPPI</strong>: Portfolio is dynamically allocated between equity and debt instrument depending on market conditions. <strong>Additional protection</strong>: Derivatives are used to hedge from portfolio investments.</td>
<td>• The NAV of the fund is calculated based on forward pricing.</td>
<td>Yes</td>
</tr>
</tbody>
</table>

<sup>1</sup> Annual report (refer to the financial statement notes): [http://www.svs.gob.cl/sitio/mercados/entidad.php?auth=ZTA0YzkyMTM2MDJiYmJiMTFlODA4NDNjYTVmMTExOTM=&send=pQk6xYi5dqd5Y/QKaq6pIVH/l70Oqx/ Z9RBX+JIM1PQc7B/aXkfxw+wO0iZDg0q12eBqiqRSu5zServComDgbtO2G2CDUcLk4EcQjmcvB8NQ6Nvww==&pestania=3](http://www.svs.gob.cl/sitio/mercados/entidad.php?auth=ZTA0YzkyMTM2MDJiYmJiMTFlODA4NDNjYTVmMTExOTM=&send=pQk6xYi5dqd5Y/QKaq6pIVH/l70Oqx/ Z9RBX+JIM1PQc7B/aXkfxw+wO0iZDg0q12eBqiqRSu5zServComDgbtO2G2CDUcLk4EcQjmcvB8NQ6Nvww==&pestania=3)
Fondo Santander Inversion de Renta
Variable STGAR-1 B1

➤ **Investment strategy**
• The Fund has a short-term investment horizon (less than or equal to one year). The recommended period for the investor to get capital protection and optimal results from the investment strategy is one year.

**Protection strategy**
• Protection is ensured by the types of the selected assets.
• The Fund is of moderate risk as it invests primarily in debt securities from government and banks, domestic and/or foreign denominated in local currency. The fund may invest up to 100% of the total assets of the Fund in Structured Notes. The classification of the securities in which the Fund invests must be located mainly within the first 2 levels granted by any rating agency, (Example: AA or AAA).
• The fund may complement its fixed rate securities with zero coupon, variable rate securities or equities, but these should not exceed 20% of total assets.

**Additional protection**
• The Fund may engage in derivatives to hedge its transactions. Derivatives are used both on exchanges and in OTC markets.
• The main risk to hedge is the credit risk, given that the debt assets are exposed to total or partial failure of payment by the issuer of the securities, as they are sensitive to movements in interest rates

➤ **Financial institution:** The fund is managed by GestiónSantander S.A belonging to Grupo Financiero Santander.
➤ **Inception date:** 2nd February 2010.
➤ **Investment Objective:** The Fund’s objective is to protect at least 90% of initial capital and will seek to offer additional return.
➤ **Type of assets:** Bond.

---

1 Sources:
Fund profile: http://finance.yahoo.com/q/pr?s=STGAR1B1.MX+Profile
<table>
<thead>
<tr>
<th>Fund name</th>
<th>Type of asset</th>
<th>Type of fund</th>
<th>Subscription/Redemption Frequency</th>
<th>Protection technique</th>
<th>Valuation Method</th>
<th>Secondary trading</th>
</tr>
</thead>
<tbody>
<tr>
<td><em>Fondo Santander Inversion de Renta Variable STGAR-1 B1</em></td>
<td><strong>Equity:</strong> Risky assets: Variable interest rate bonds and equities (less than 20%). <strong>Safe assets:</strong> Highly rated fixed income securities.</td>
<td>Open-ended</td>
<td>N/A (Annual report not available)</td>
<td>Investing in safe assets Investing in safe assets mainly fixed income securities with AA and AAA rating. <strong>Addition protection</strong> Additional layer of protection is in place by hedging the credit risk with derivatives.</td>
<td>• The NAV of the fund is calculated based on forward pricing.</td>
<td>Yes</td>
</tr>
</tbody>
</table>
**Fondo BBVA Bancomer Estructurado**

**Inversion TRIPLE1 GB**

- **Investment strategy**
  - To achieve its objective, the fund invests in fixed-income debt assets, mainly structured notes and banks’ term deposits that are rated AAA or AA by local rating agencies. The portion of these assets should not be less than 90%, as mentioned in the prospectus.
  - Investors should remain in the fund for a minimum period of 90 days (Warranty period) to benefit from capital protection and investment gains.
  - TRIPLE1 has a low investment risk, if any; it will be mainly associated with credit risk and to a lesser extent, with the risk of abrupt fluctuations in the interest rates.

- **Protection strategy**
  - Capital protection is ensured by the nature of the selected assets. These are fixed-income securities, highly rated, highly liquid, with a short term investment period (at least 2 months) and the structured bank notes should be capital protected.

- **Additional protection**
  - TRIPLE1 may also invest in derivative financial instruments to hedge the portfolio related risks. Derivatives operations can be used both in the OTC or the exchange market. However, the portion of these instruments must not exceed 10% of total assets.

**Financial institution:** The fund is managed by BBVA Bancomer Gestión, S.A.

**Inception date:** 3rd January 2008.

**Investment Objective:** The Fund’s objective is to ensure a 100% protection of the invested capital as it provides the possibility of earning additional gains.

**Type of assets:** Bond.

---

1 Sources:
<table>
<thead>
<tr>
<th>Fund name</th>
<th>Type of asset</th>
<th>Type of fund</th>
<th>Subscription/Redemption Frequency</th>
<th>Protection technique</th>
<th>Valuation Method</th>
<th>Secondary trading</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fondo BBVA Bancomer Estructurado Inversion TRIPLE1 GB</td>
<td>Bond: Safe assets: Mainly structured notes and term deposits.</td>
<td>Open-ended</td>
<td>N/A (Annual report not available)</td>
<td>Investing in safe assets: Investing in safe assets mainly fixed income securities with AA and AAA rating. Additional protection: Additional layer of protection is in place by hedging credit risk and interest rate risk with derivatives.</td>
<td>• The NAV of the fund is calculated based on forward pricing.</td>
<td>Yes</td>
</tr>
</tbody>
</table>
## c. Summary of America capital protected funds survey

<table>
<thead>
<tr>
<th>Fund’s name</th>
<th>Type of asset</th>
<th>Type of fund</th>
<th>Subscription/Redemption Frequency</th>
<th>Protection technique</th>
<th>Valuation Method*</th>
<th>Secondary trading</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>USA</strong></td>
<td><strong>LVIP Protected Profile 2010 Fund; Standard Class</strong></td>
<td><strong>Mixed assets:</strong> Index funds investing in equity Risky assets: Index funds investing in fixed incomes securities, and high short term money market investments.</td>
<td>Open-ended</td>
<td>Number of units: Created: 869 Cancelled: 482</td>
<td>A variation of CPPI: a) Asset allocation varies depending on market conditions. b) Asset allocation becomes more conservative when the fund approaches maturity, the landing date 2030.</td>
<td>No</td>
</tr>
<tr>
<td><strong>USA</strong></td>
<td><strong>LVIP Protected Profile 2010 Fund; Service Class</strong></td>
<td><strong>Bonds:</strong> Safe assets: 100% US government obligation from 12th January 2009 and onward.</td>
<td>Number of units: Created: 185 Cancelled: 290</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>USA</strong></td>
<td><strong>Oppenheimer Principal Prot Main Street Fund III;A</strong></td>
<td></td>
<td>Closed</td>
<td>Number of units: Created: 9,141 Cancelled: 120,263</td>
<td>A variation of CPPI: a) Asset allocation varies depending on market conditions. b) As from the 12th January 2009 the fund converted all its assets to bonds. Additional protection: The fund entered into a “financial warranty” with a third party Main Place LLC.</td>
<td>Yes</td>
</tr>
<tr>
<td>Country</td>
<td>Fund Name</td>
<td>Equity</td>
<td>Risky assets</td>
<td>Safe assets</td>
<td>Safe assets</td>
<td>Number of units</td>
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</tr>
<tr>
<td>USA</td>
<td>Janus Protected Series - Growth A</td>
<td>Equity:</td>
<td>Equity securities and options.</td>
<td>Safe assets: Cash, cash equivalents and U.S. treasuries.</td>
<td>Open-ended</td>
<td>Number of units: Created: 4,074 Cancelled: 174</td>
</tr>
<tr>
<td>Canada</td>
<td>National Bank Protected Growth Balanced Fund</td>
<td>Mixed assets: Safe assets: Term deposits, money market instruments, mortgage loans guaranteed, government bonds and debentures. Risky assets: Foreign and Canadian equity (more than 50%)</td>
<td>Closed Since March 31, 2005</td>
<td>Number of units: Created: 0 Cancelled: 162,656</td>
<td>A variation of CPPI: Change portfolio composition depending on Market conditions. Additional protection a) Additional layer of protection is in place by using derivatives for hedging. b) Besides, an insurance company appointed to protect the initial capital.</td>
<td>N/A</td>
</tr>
<tr>
<td>Canada</td>
<td>Covington Venture Cap Protected Sr IX</td>
<td>Equity:</td>
<td>Safe assets: Zero-Coupon Bonds. Risky assets: Shares in Ontario high growth companies.</td>
<td>Limited</td>
<td>Number of units: Created: 0 Cancelled: 120,000</td>
<td>Bond + Equity (similar to Bond + Call Option): a) About 70% of the capital is invested in zero coupon bonds; so that the aggregate payment obligation will be equal to the capital invested. b) The remaining capital portion is invested in private equity.</td>
</tr>
<tr>
<td>Country</td>
<td>Fund Name</td>
<td>Fund Type</td>
<td>Equity</td>
<td>Risky assets</td>
<td>Safe assets</td>
<td>Open-ended</td>
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</tr>
<tr>
<td>Brazil</td>
<td>Citifirst Ibovespa Capital Protegido II FI Multimercado</td>
<td>Equity</td>
<td>Options linked to IBOVESPA index.</td>
<td>Government securities and fixed income derivatives.</td>
<td>N/A</td>
<td>Open-ended</td>
</tr>
<tr>
<td>Brazil</td>
<td>Bradesco FI Mult Principal Protegido</td>
<td>Bond</td>
<td>Options linked to IBOVESPA index.</td>
<td>Public/private fixed income securities and fixed income derivatives.</td>
<td>N/A</td>
<td>Open-ended</td>
</tr>
<tr>
<td>Chile</td>
<td>Larrainvial Proteccion APV-A</td>
<td>Mixed asset</td>
<td>Equity.</td>
<td>Public/private fixed income securities, cash.</td>
<td>Number of units: Created: 55,216,793 Cancelled: 35,751,571</td>
<td>Open-ended</td>
</tr>
<tr>
<td>Mexico</td>
<td>Fondo Santander Inversion de Renta Variable STGAR-1 B1</td>
<td>Equity</td>
<td>Variable interest rate bonds and equities (less than 20%).</td>
<td>Highly rated fixed income securities.</td>
<td>N/A</td>
<td>Open-ended</td>
</tr>
<tr>
<td>Country</td>
<td>Fund</td>
<td>Bond:</td>
<td>Open-ended</td>
<td>Investing in safe assets:</td>
<td>Additional protection:</td>
<td>The NAV of the fund is calculated based on forward pricing.</td>
</tr>
<tr>
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<td>---------------------------------------------------------------</td>
</tr>
<tr>
<td>Mexico</td>
<td>Fondo BBVA Bancomer Estructurado Inversion TRIPLE1 GB</td>
<td>Safe assets: Mainly structured notes and term deposits.</td>
<td>Open-ended (Annual report not available)</td>
<td>Investing in safe assets mainly fixed income securities with AA and AAA rating.</td>
<td>Additional layer of protection is in place by hedging credit risk and interest rate risk with derivatives.</td>
<td>The NAV of the fund is calculated based on forward pricing.</td>
</tr>
</tbody>
</table>

Table 15: Summary of America Capital Protected Funds Survey
IX. Survey of Asia Protected Funds

1. Funds screening: Methodology
   - Capital protected funds are particularly active in Asia. Due to the economic boom of the emerging countries, more licenses are granted to investment funds including the capital protected ones.
   - In our survey, we focus on the following countries: New Zealand, Australia, Japan, Korea, Singapore, Malaysia, Pakistan, India and China. The choice is dictated by the relevance of the economic and the financial activities.
   - The funds were selected from different sources and by different means. For some countries, we refer to funds’ screeners or Databases. When it is not possible, we use the internet to constitute our own protected funds selection. We try to establish a ranking by country as far as possible, since it is difficult to establish a global ranking.
   - For **Australia** and **New Zealand**: We referred to Lipper screener\(^1\). For all types of assets\(^2\), we narrowed our scope on funds rated 4 and 5 in terms of total returns. The selection contains a considerable number of protected fund but these are managed by a handful of companies. To avoid repetitiveness due to similar management strategies through the series of funds, we only took a sample of well-rated funds per Management Company and per type of asset.
   - For **Japan**: We referred to Lipper as well. We noticed that some companies monopolize the top spots of protected funds’ ranking. Hence, we only picked a sample of their funds in order to not be repetitive when it comes to the management strategy.
   - For **Korea**: On Lipper Screener, we found only two protected funds that are rated 5 in terms of total returns and that are domiciled in Korea.
   - For **Singapore**: We narrowed our interest in highly rated funds and these are rated 5 for bonds and 3 for mixed assets.
   - For **Malaysia**: We referred to a local Fund Database\(^3\). The Database lists a number of protected funds. To set a pre-selection for the survey, we shortlisted protected funds with a high YTD return.
   - For **Pakistan**: We could not find a proper fund database or fund screener. Thus, we had recourse to the internet. We managed to set our own protected fund list for Pakistan. This list is not meant to be comprehensive; it only contains the protected funds we could find. For some funds, we are unable to mention the YTD return. This is because their documentation (prospectus and annual report) are not available online. Consequently, there is no need to consider them in the final selection.
   - For **India**: Due to the lack of proper fund screeners, we visited the Securities Commission of India’s website. There is this list of funds that have been granted licenses to operate in the years 2010 and 2011, among which we found protected funds\(^4\). As in the case of Pakistani protected funds, we are unable to mention the YTD of funds whose documentation is not available online.
   - For **China**: On the website of the Chinese Central Bank, we found the list of funds operating in china, including the protected funds. The YTD is not given for these funds simply because none of them attached any documentation on their websites, at least not in English\(^5\).

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\(^1\) [http://www.lipperleaders.com](http://www.lipperleaders.com)

\(^2\) Types of assets as suggested by Lipperleader are: Bonds, Equity and mixed assets.


\(^4\) [http://www.sebi.gov.in/DeptIndex.jsp?dep_id=4](http://www.sebi.gov.in/DeptIndex.jsp?dep_id=4)

\(^5\) [http://www.csrc.gov.cn/pub/csrc_en/participants/FundsRelatedList/ListofFunds/200906/t20090616_107657.htm](http://www.csrc.gov.cn/pub/csrc_en/participants/FundsRelatedList/ListofFunds/200906/t20090616_107657.htm)
## 2. Survey’s selection

<table>
<thead>
<tr>
<th>Fund's name</th>
<th>Documents</th>
<th>Performance</th>
<th>Type of assets</th>
<th>Total net assets (Currency of denomination)</th>
<th>Total net assets ($ M)</th>
</tr>
</thead>
<tbody>
<tr>
<td>New Zealand Liontamer FALLEN ANGELS Series 1 (Trust 26) - Tracker</td>
<td>Available</td>
<td>5 (lipper)²</td>
<td>Equity</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>New Zealand Liontamer FALLEN ANGELS Series 1 (Trust 26) - Booster</td>
<td>Available</td>
<td>5 (lipper)</td>
<td>Equity</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>New Zealand Liontamer BRICK Series 1 (Trust 18) - Booster</td>
<td>Available</td>
<td>5 (lipper)</td>
<td>Bond</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>New Zealand Liontamer COMBI Series 3 (Trust 17) - Tracker</td>
<td>Available</td>
<td>5 (lipper)</td>
<td>Bond</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>New Zealand Westpac KiwiSaver-Capital Protection Plan 1</td>
<td>Available</td>
<td>5 (lipper)</td>
<td>Mixed assets</td>
<td>9.51 M NZD</td>
<td>3.20</td>
</tr>
<tr>
<td>New Zealand Asteron Investment Bond Capital Protected</td>
<td>Available</td>
<td>4 (lipper)</td>
<td>Mixed assets</td>
<td>3.90 M NZD</td>
<td>7.80</td>
</tr>
<tr>
<td>Australia Invesco Wholesale Protected Growth</td>
<td>Available</td>
<td>5 (lipper)</td>
<td>Mixed assets</td>
<td>9.12 M AUD</td>
<td>6.91</td>
</tr>
<tr>
<td>Australia Macquarie Winton Global Opportunities Trust</td>
<td>Available</td>
<td>5 (lipper)</td>
<td>Mixed assets</td>
<td>31.92 M AUD</td>
<td>33.61</td>
</tr>
<tr>
<td>Australia Pre Select 100%+ Cap Protected Growth 1</td>
<td>Available</td>
<td>5 (lipper)</td>
<td>Mixed assets</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Australia Liontamer FALLEN ANGELS Series 1 (Trust 26) - Booster</td>
<td>Available</td>
<td>5 (lipper)</td>
<td>Equity</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Australia Liontamer FALLEN ANGELS Series 1 (Trust 26) - Booster</td>
<td>Available</td>
<td>5 (lipper)</td>
<td>Equity</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Australia STRIPES Global Financial Titans</td>
<td>Available</td>
<td>5 (lipper)</td>
<td>Equity</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Australia Credit Suisse PL100-World Water Trust</td>
<td>Available</td>
<td>4 (lipper)</td>
<td>Equity</td>
<td>26.55 M AUD</td>
<td>27.96</td>
</tr>
<tr>
<td>Australia MQ Gateway Trust Class BH-Asian Cash Hoarders 100%</td>
<td>Available</td>
<td>4 (lipper)</td>
<td>Equity</td>
<td>1.090 M AUD</td>
<td>1.15</td>
</tr>
<tr>
<td>Australia OnePath OA Per Sup-SGAM Protected Alt NEF</td>
<td>Available</td>
<td>4 (lipper)</td>
<td>Equity</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Australia Liontamer COMBI Series 3 (Trust 17) - Tracker</td>
<td>Available</td>
<td>5 (lipper)</td>
<td>Bond</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Japan Schroder Index Linked Cap Prot US Eq 2007-03</td>
<td>Available</td>
<td>5 (lipper)</td>
<td>Equity</td>
<td>25.54 M AUD</td>
<td>26.89</td>
</tr>
<tr>
<td>Japan Schroder Index Linked Cap Prot India Eq 2007-03</td>
<td>Available</td>
<td>5 (lipper)</td>
<td>Equity</td>
<td>60.79 M AUD</td>
<td>64.01</td>
</tr>
<tr>
<td>Japan SPARX Principal Protected Asia Pac Diversified II</td>
<td>Available</td>
<td>1 (lipper)</td>
<td>Bond</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Korea Dongbu Delta - Ace 1 Closed Equity Mixed 5:10</td>
<td>Available</td>
<td>5 (lipper)</td>
<td>Mixed assets</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Korea Dongbu Delta - Ace 1 Closed Equity Mixed 8</td>
<td>Available</td>
<td>5 (lipper)</td>
<td>Mixed assets</td>
<td>1365 M KRW</td>
<td>1.21</td>
</tr>
<tr>
<td>Singapore Amundi Bonus Builder</td>
<td>Available</td>
<td>3 (lipper)</td>
<td>Mixed assets</td>
<td>29.74 M SGD</td>
<td>23.62</td>
</tr>
<tr>
<td>Singapore HSBC Turbo Double 8</td>
<td>Available</td>
<td>3 (lipper)</td>
<td>Mixed assets</td>
<td>8.58 M USD</td>
<td>8.58</td>
</tr>
<tr>
<td>Singapore DBS Sprint Capital Protected</td>
<td>Available</td>
<td>5 (lipper)</td>
<td>Bond</td>
<td>21.53 M SGD</td>
<td>17.10</td>
</tr>
<tr>
<td>Singapore GreatLink Choice (Dec 2013)</td>
<td>Available</td>
<td>5 (lipper)</td>
<td>Bond</td>
<td>0.008 M SGD</td>
<td>0.007</td>
</tr>
<tr>
<td>Malaysia² HDBS Tactical Opportunity Capital Protected</td>
<td>Available</td>
<td>YTD -0.25%</td>
<td>Bond</td>
<td>41.46 M RM²</td>
<td>13.616</td>
</tr>
<tr>
<td>Malaysia OSK-UOB Capital Protected Gold Guru</td>
<td>Available</td>
<td>YTD 5.23%</td>
<td>Bond</td>
<td>3.08 M USD¹</td>
<td>3.08</td>
</tr>
<tr>
<td>Malaysia OSK-UOB Capital Protected Asia Gaming &amp; Hospitality</td>
<td>Available</td>
<td>YTD 0.32%</td>
<td>Bond</td>
<td>14.74 M USD</td>
<td>14.74</td>
</tr>
<tr>
<td>Malaysia OSK-UOB CP China A-Share - Series 2</td>
<td>Available</td>
<td>YTD 0.28%</td>
<td>Bond</td>
<td>12.58 M USD</td>
<td>12.58</td>
</tr>
<tr>
<td>Malaysia RHB Dynamic Oil-Gold Capital Protected</td>
<td>Available</td>
<td>YTD 0.44%</td>
<td>Bond</td>
<td>10.20 M USD</td>
<td>10.20</td>
</tr>
<tr>
<td>Malaysia RHB China Averaging Capital Protected</td>
<td>Available</td>
<td>YTD 0.31%</td>
<td>Bond</td>
<td>17.16 M USD</td>
<td>17.16</td>
</tr>
<tr>
<td>Malaysia ING Principal Protected Income Fund</td>
<td>Available</td>
<td>YTD 0.17%</td>
<td>Bond</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Malaysia PNB Structured Investment</td>
<td>Available</td>
<td>YTD 0.35%</td>
<td>Mixed assets</td>
<td>876.09 M USD</td>
<td>876.09</td>
</tr>
</tbody>
</table>

1. For the funds that have been screened using www.lipperleaders.com, the data relative to “Total net assets” is that of 30th March 2012.
2. For New Zealand, Australia, Japan, Korea and Singapore Lipper Rating, with regards to Total Returns, is that of December 2011.
3. For Malaysia, the YTD returns of the selected protected funds are those of December 2011
4. http://hwangim.com/project/hwang/media/2012/03/12/185456-474.pdf Data are relative to 29th February 2012
5. For the remaining Malaysian funds, data related to “Total net assets” has been collected using http://my.morningstar.com/ap/main1/default.aspx Data are relative to 31st of March 2012.
6. For Pakistan, the YTD returns of the selected protected funds are those of December 2011
7. When the Documentation is not available, it is impossible to get the rest of the information. That is what “X” refers to.
<table>
<thead>
<tr>
<th>Country</th>
<th>Fund Name</th>
<th>Availability</th>
<th>YTD Returns</th>
<th>Asset Type</th>
<th>Value (USD/PKR)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Malaysia</td>
<td>TA Select Titans In Asia Capital Protected Fund</td>
<td>Available</td>
<td>YTD -0.17%</td>
<td>Bond</td>
<td>4.69 M USD</td>
</tr>
<tr>
<td></td>
<td>Pakistan Capital Protected Fund-Fixed Income Securities</td>
<td>N/A</td>
<td>X</td>
<td>X X X X</td>
<td></td>
</tr>
<tr>
<td>Pakistan</td>
<td>Alfarah GHP Principal Protected Fund-II (AGPPF-II)</td>
<td>N/A</td>
<td>X</td>
<td>X X X X</td>
<td></td>
</tr>
<tr>
<td>Pakistan</td>
<td>Faysal Savings Growth Fund</td>
<td>Available</td>
<td>YTD 11.22%</td>
<td>Bond</td>
<td>3,633 M PKR</td>
</tr>
<tr>
<td>Pakistan</td>
<td>IGI Capital Protected Fund (IGI-CPF) Commodity linked</td>
<td>Available</td>
<td>Since inception</td>
<td>Mixed assets</td>
<td>830 M PKR</td>
</tr>
<tr>
<td>Pakistan</td>
<td>JS Principal Secure Fund I (JS PSF-I)</td>
<td>Available</td>
<td>YTD 5.2%</td>
<td>Bond</td>
<td>1,072 M PKR</td>
</tr>
<tr>
<td>Pakistan</td>
<td>KASB Capital Protected Gold Fund</td>
<td>Available</td>
<td>YTD 3.87%</td>
<td>Bond</td>
<td>521 M PKR</td>
</tr>
<tr>
<td>Pakistan</td>
<td>PICIC Income Fund</td>
<td>Available</td>
<td>YTD 11.57%</td>
<td>Bond</td>
<td>1,079 M PKR</td>
</tr>
<tr>
<td>Pakistan</td>
<td>Alfarah GHP Principal Protected Fund-II (AGPPF-II)</td>
<td>N/A</td>
<td>X X X X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>India</td>
<td>SBI Capital Protection Oriented Fund - Series 1</td>
<td>Available</td>
<td>2 (lipper)</td>
<td>Mixed assets</td>
<td>2,266 M INR</td>
</tr>
<tr>
<td>India</td>
<td>Sundaram Capital Protection Oriented Fund 5 Years</td>
<td>Available</td>
<td>2 (lipper)</td>
<td>Mixed assets</td>
<td>84 M INR</td>
</tr>
<tr>
<td>India</td>
<td>UTI Capital Protection Oriented Sch-I 5 Years-Div</td>
<td>N/A</td>
<td>4 (lipper)</td>
<td>Mixed assets</td>
<td>N/A X</td>
</tr>
<tr>
<td>India</td>
<td>JPMorgan India Capital Protection Oriented Fund</td>
<td>Available</td>
<td>YTD 0.80%</td>
<td>Mixed Assets</td>
<td>3,224 M INR</td>
</tr>
<tr>
<td>India</td>
<td>Pramerica Capital Protection Oriented Fund - Series 3</td>
<td>N/A</td>
<td>X X X X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>India</td>
<td>Birla Sun Life Capital Protection Oriented Fund - Series 1</td>
<td>Available</td>
<td>Since inception</td>
<td>4.60%</td>
<td>Mixed assets</td>
</tr>
<tr>
<td>India</td>
<td>Tata Capital Protection Oriented Fund - Series I and II</td>
<td>N/A</td>
<td>X X X X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>India</td>
<td>L and T Capital Protection Oriented Fund - Series I, II &amp;III</td>
<td>N/A</td>
<td>X X X X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>India</td>
<td>ICICI Prudential Capital Protection Oriented Fund -Series I to V</td>
<td>Available</td>
<td>YTD 1.73%</td>
<td>Bond</td>
<td>154 M INR</td>
</tr>
<tr>
<td>India</td>
<td>Axis Capital Protection Oriented Fund - Series I</td>
<td>Available</td>
<td>YTD 5.88%</td>
<td>Mixed assets</td>
<td>1,778 M INR</td>
</tr>
<tr>
<td>India</td>
<td>BNP Paribas Capital Protection Oriented Fund - Series I, II&amp;III</td>
<td>N/A</td>
<td>X X X X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>India</td>
<td>Religare Capital Protection Oriented Fund - Series I</td>
<td>Available</td>
<td>YTD 2.02%</td>
<td>Mixed Assets</td>
<td>N/A N/A</td>
</tr>
<tr>
<td>China</td>
<td>KBC-GOLDSTATE Jewel Dynamic Principal-Protected Mixed Fund</td>
<td>N/A</td>
<td>X X X X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>China</td>
<td>Yinhua Principal-Protected and Value-Added Fund</td>
<td>N/A</td>
<td>X X X X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>China</td>
<td>Yinhua Principal Protected Value Growth Fund</td>
<td>N/A</td>
<td>X X X X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>China</td>
<td>China Southern Principal Protected Fund</td>
<td>N/A</td>
<td>X X X X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>China</td>
<td>Guotai Jinlu Principal Preserved Value Growth Fund II</td>
<td>N/A</td>
<td>X X X X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>China</td>
<td>Wanjia Principal Protected Appreciation Fund</td>
<td>N/A</td>
<td>X X X X</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*: N/A: Not Available - X: When the Documentation is not available, it is impossible to get the rest of the information. That is what "X" refers to.

Table 16: Pre-selection of Asia Capital Protected Funds

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1 Annual report of the year ended 30th June 2011
5 For India, The YTD returns of the selected protected funds are those of January 2012
3. Final selection

- In the final selection, we considered the relevance of the economic activity of the hosting country, the performance of funds and the availability of funds’ documentation.
- The number of funds to be scrutinized was finalized based on the relevance of the country and the number of funds we could collect. Hence, we kept four funds for Australia, four for India, three for Malaysia, two for New Zealand, two for Singapore, two for Pakistan.
- Though we collected a considerable number of protected funds in China, the lack of documentation, at least in English, prevented us from including them in the survey.
- www.lipperleaders.com offers Preliminary information about capital protected funds in Japan and Korea, yet we could not access their documentation in English. Hence, we were forced to abandon further research for these two countries as well.
- **Australia**: We focused on the funds that are rated 5 by Lipper. “Liontamer FALLEN ANGELS Series” is one of them, but since we cover the same fund in New Zealand, we avoided the repetition.
- **New Zealand**: Liontamer funds always appear in the top of the ranking whether in New Zealand or Australia. In order to not have the same management style, we decided to take only one sample of the Liontamer protected funds series i.e. “Liontamer FALLEN ANGELS Series1 (Trust 26)-Booster”. “Westpac KiwiSaver-Capital Protection Plan 1” is the second fund that is scrutinized.
- **Singapore**: We shortlisted the best performing funds “DBS Sprint Capital Protected” and “GreatLink Choice (Dec 2013)”.
- **Malaysia**: We referred to the YTD return to select the three most performing funds. Hence we include “OSK-UOB Capital Protected Gold Guru”, “RHB Dynamic Oil-Gold Capital Protected” and “PNB Structured Investment”.
- **Pakistan**: The choice is dictated by the availability of documentation and the highest YTD returns. As a result, we include “Faysal Savings Growth Fund” and “KASB Capital Protected Gold Fund”.
- **India**: As in the case of Pakistan, we excluded the funds whose documentation is not available. Next, we considered the funds that are rated by Lipper, namely “Sundaram Capital Protection Oriented Fund 5 Years” and “SBI Capital Protection Oriented Fund - Series 1”. As a result, we include two funds with the highest YTD return i.e. “Birla Sun Life Capital Protection Oriented Fund – Series1” and “Axis Capital Protection Oriented Fund - Series 1”.

<table>
<thead>
<tr>
<th>Country</th>
<th>NAV Average</th>
<th>NAV Median</th>
<th>Number of Funds</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>7.80</td>
<td>7.80</td>
<td>2</td>
</tr>
<tr>
<td>New Zealand</td>
<td>21.61</td>
<td>21.61</td>
<td>4</td>
</tr>
<tr>
<td>Singapore</td>
<td>8.55</td>
<td>8.55</td>
<td>2</td>
</tr>
<tr>
<td>Malaysia</td>
<td>296.46</td>
<td>10.20</td>
<td>3</td>
</tr>
<tr>
<td>Pakistan</td>
<td>22.87</td>
<td>22.87</td>
<td>2</td>
</tr>
<tr>
<td>India</td>
<td>27.30</td>
<td>35.28</td>
<td>4</td>
</tr>
</tbody>
</table>

A value of “0” means that the information was not available at the time of data collection.

![Figure 11: Asia final selected capital protected funds aggregation](image)
Table 17: Final selection of Asia Capital Protected Funds

Capital protected funds activity is promising in Australia. It started early – the oldest fund within the final selection was launched in 1993 – and it continues to grow and to develop innovative products. The funds established before 2008 are of a longer tenure and capital protection will not be enforceable until the maturity date, whereas the fund created in mid-2008 “STRIPES Global Financial Titans” is of a medium term. Globally, each fund has its own investment style and the protection techniques are not redundant. The oldest fund- “Invesco Wholesale Protected Growth” (1993) - has recourse to a very common approach, CPPI with an additional layer of derivatives for hedging. “Macquarie Winton Global Opportunities Trust” on the other hand, has a rather complex and unique investment strategy. The fund invests the proceeds in a company that places its investments in a second company. This one, in turns, holds a portfolio of securities that are managed according to the CPPI by the protection provider (Goldman Sachs) who protects its investments by means of a capital protection agreement. Hence, the capital protection exists but is not directly provided to the Trust or to the investors. The pace at which the units are cancelled in these two funds is intriguing. For the year ended 2011, 2,771,000 Invesco units were redeemed against 617,000 created. For Macquarie trust, 3,436,000 were cancelled while the creation is nil. This could be explained by an eventual difficulty within the funds or by the approaching maturity date, at least for the latter. “Pre Select 100%+ Cap Protected Growth 1” seems to use a common CPPI + derivatives strategy but its peculiar in that both the equity and deposit components are managed by two subsidiaries of the mother company to which it belongs. Finally, three funds out of four are closed and three out of four are not listed; this might not say much but it might suggest liquidity concerns with regards to the funds units. “STRIPES Global Financial Titans”, though closed and not listed, addresses this issue and tries to offer liquid shares. Units can be sold back to an investment company on a monthly basis.
In New Zealand, “Westpac KiwiSaver-Capital Protection Plan 1” (2007) deploys the very familiar CPPI + protection agreement. As explained before, this strategy imposes conservative choices on investors as the protection provider tends to limit the exposure to growth assets. The concerns about debt securities and cash lockouts are even greater as the fund tenure is of 10 years. “Liontamer FALLEN ANGELS Series1 (Trust 26)-Booster” (2008), managed by an Australian company, is however of a medium term. It proposes creative features and new packaging techniques, what they call “Smart Start” and “Booster feature”. The protection mechanism is simple: the asset provider is liable for paying index-linked returns and to ensure capital protection. In Singapore, the surveyed funds are both long term: “DBS Sprint Capital Protected” (2004) is for 8 years and “GreatLink Choice Dec 2013” (2006) is for 7 years. They both use a rudimentary protection namely investing in safe debt securities. However, it becomes more sophisticated when they extend it with an interest rate or a total return swap. Interestingly, cancellation of DBS units reached 408,325 as opposed to nil creation. This might be normal as the fund is maturing soon (December 2012).

As mentioned earlier, Malaysian capital protected funds have certain characteristics. They promise 100% capital repayment, their maturity does not exceed 5 years and the model followed is usually that of Bond &Call Option where a large portion of the capital raised is placed in Zero Coupon Negotiable Instruments Deposits (ZNIDs). These criteria were validated by the funds we scrutinized: “OSK-UOB Capital Protected Gold Guru” (2009) and “RHB Dynamic Oil-Gold Capital Protected” (2011). Notably, OSK appears to face some difficulties. In 2011, 11,250,000 of its units were cancelled and zero created. “PNB Structured Investment” (2008) derogates from the above mentioned rules. This is because it is not a capital protected fund per se; it is a growth fund with capital protection embedded in its assets. It invests in structured products using Bond + Call Option techniques and REITs (Real Estate Investment Trust) instruments with a buy back option.

Pakistani funds use simplistic capital protection techniques as seen in the two funds of the final selection. “Faysal Savings Growth Fund” (2007), though a saving fund, targets capital protection using safe debt instruments in addition to derivatives for hedging. “KASB Capital Protected Gold Fund” (2010) deploys a variation of Bond + Call Option where exposure is taken on commodity exchange gold contract. Indian funds submit to a stringent regulation that forces them to operate as closed funds, to protect their capital solely through conservative and safe assets. As a matter of fact, the surveyed funds follow these rules faithfully. Normally, fund managers are not liable to redeem any share. “Sundaram Capital Protection Oriented Fund 5 Years” however does: in 2011, 171000 units were cancelled against zero created. An urgent need might justify this figure. “Birla Sun Life Capital Protection Oriented Fund - Series 1” (2010), on the other hand shows zero cancellation and zero issuance and whoever wants to redeem units has to do it through the stock market.

Overall, we can say that the level of sophistication of capital protected funds is high in New Zealand and Australia while it is remarkably less in other countries like Singapore, Malaysia and Pakistan where traditional protection techniques dominate. In India, however, these can be qualified as basic as the industry was allowed to operate only in 2006. There is diversity in the types of assets in the region except in Malaysia and India, where cautious mixed assets and bonds dominate.
4. Survey results

a. The approach

- For each fund, we tried to collect the respective prospectus and the latest annual report, if available.
- In the prospectus, we looked for information related to: type of fund, type of assets, protection strategy and fund valuation.
- For the funds where the type of assets was not mentioned, we scrutinized the respective prospectus and a website (www.morningstar.com) to confirm their asset allocation.
- In the annual report, we confirm the type of assets by examining the asset allocation, and if the information is available, we try to address the redemption/subscription frequency. This is presented in the form of units created or canceled during the financial year. If such data is not disclosed, we try to deduce it by means of simplistic calculation. For instance, we look for subscription proceeds and redemption payments for the financial year, then we divide it by the average (NAV/share) or if it is not available, by the latest NAV. We mention (N/A) in the Redemption/subscription frequency cell if the information is not available or if we were unable to find the annual report.
- Pertaining to secondary trading, if this information is not mentioned in the respective prospectus, we browse the respective stock exchange markets and check whether the ISIN code of the fund or its name is listed in the market. If so, we consider that fund units are traded in the secondary market, otherwise no.
b. Funds’ profiles

**Liontamer FALLEN ANGELS Series1 (Trust 26)-Booster**

**Investment strategy**

- The Liontamer Fallen Angels Index tracks an equally weighted basket of 16 companies operating across a variety of industries around the world.
- Smart start feature: With the “Smart-start”, investors can benefit even when the Fallen Angels Index drops in value during the first six months of the investment term. Smart-start finds the lowest point at three intervals during the first six months (initial start date, three months and six months) and re-sets the initial opening value of the index to that lowest point. So even if prices keep falling during the early stages of the investment period, the Smart-start feature means investors can still benefit.
- Booster feature: Booster units provide 130% of the rise in the Fallen Angels Index at maturity. In other words, returns are boosted 1.3 times over.

**Protection strategy**

- On maturity, and in the normal course of events, holders of this class of units would receive 90% of their investment amount; even if the Fallen Angles falls in value.
- To ensure this, the fund buys financial instruments (Assets of the Fund) sold by the Fund Asset Provider, KBC Bank. KBC Bank is a Global Fortune 500 company with a Standard & Poor’s credit rating of AA-.
- The Fund Asset Provider is legally liable to pay to Liontamer as trustee of the Trusts an amount equivalent to the Index Linked Return and 90% of the Investment Amount.
- Although the Fund Asset Provider has legal liability to make the repayments described above, it does not guarantee repayment of the Units or any returns on the Units, nor does it accept any other liability to Unit holders. Therefore, Unit holders are subject to the credit risk of the Fund Asset Provider.¹

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¹ Sources:
### Profile summary

<table>
<thead>
<tr>
<th>Fund name</th>
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<th>Subscription/Redemption Frequency</th>
<th>Protection technique</th>
<th>Valuation Method</th>
<th>Secondary trading</th>
</tr>
</thead>
<tbody>
<tr>
<td>Liontamer FALLEN ANGELS Series 1 (Trust 26)-Booster</td>
<td>Equity: Equitable index “Fallen Angel”</td>
<td>Closed</td>
<td>N/A (Annual report not available)</td>
<td>Investing in protected assets: a) The fund buys financial assets from a Fund asset Provider - the KBC Bank. b) The fund asset provider is liable to pay index-linked returns and to ensure 90% capital protection.</td>
<td>• Value prior to maturity: The NAV is calculated by estimating the market value of the assets. The Fallen Angel index is estimated at market value every month. • Hold to maturity Valuation: represents what the value of each unit would be, assuming it was maturing today and has been held for the full term. It gives an indication to the investors on how their units are performing at the time of calculation.</td>
<td>Listed in &quot;New Zealand Debentures Exchange&quot;.</td>
</tr>
</tbody>
</table>

1. This type of units’ valuation is useful for early redemption, as capital protection is not enforced prior to maturity date.
2. The hold-to-maturity value is a market value or a value at which investors can exit the fund. It represents what the value of each unit would be assuming it was maturing today and had been held for the full term. By making these assumptions, the fund provides a hypothetical value which reflects the relevant level of capital protection plus the formula of returns which apply at maturity. They calculate this by adding together the accrued annual return and any growth in the underlying index, since the start date of investment. They take into account the participation rate of the fund when making the calculation i.e. the level of exposure the fund has to the index. The hold-to-maturity value gives investors an indication of how their investment is performing at the time the calculation is made.
3. [http://www.debentures.co.nz/managedfunds.html](http://www.debentures.co.nz/managedfunds.html)
Westpac KiwiSaver-Capital Protection Plan 1

- **Investment strategy**
  - Each Capital Protection Plan (CPP) Fund is intended to open on or around 1st of October every year, and the maturity date of each CPP Fund will be 10 years from its opening date.  
  - **Prior to the opening date:**
    - Until the opening date for a CPP Fund, the member’s contributions will be invested in their Transaction Account (and will earn interest).
  - **After the opening date:**
    - After the opening date of a CPP Fund, no more investments in that particular Fund will be permitted.
    - The Manager will monitor and adjust the asset allocation of each CPP Fund throughout the life of the CPP Fund to strike a predetermined balance between maximizing the returns that can be used to meet the expenses of the CPP Fund and generating returns to the members, whilst ensuring that the capital value of that CPP Fund is protected.
    - Each member invested in a CPP Fund will have a capital protected value equal to the original amount invested in the CPP Fund by that member (except where the member has partially withdrawn from the CPP Fund).
  - **Protection Strategy:** (A variation of CPPI)
    - At launch, a CPP Fund is invested in growth assets (such as New Zealand, Australian and international shares).
    - If the value of the growth assets of the CPP Fund falls below certain predetermined levels, the Manager will adjust that CPP Fund by investing some or all of the assets of the Fund in zero coupon bonds or deposits with the Capital Protection Provider.
    - The Trustee (BT Fund Management) pays the Capital Protection Provider (Westpac Bank) a fee in form of a percentage of the growth assets (i.e. all assets except the zero-coupon bonds) held by a CPP Fund.
    - At maturity, if the aggregate value of the units held by the member in that CPP Fund is less than that Protected Amount, the Capital Protection Provider will be obliged to pay that shortfall (plus any income tax on the payment of the shortfall) to the Trustee on the maturity date. The Capital Protection Provider will not have a direct relationship with members, and will be liable only to the Trustee.
    - The Capital Protection Provider has the power to enforce their balancing of the investment of the CPP Fund.

- **Financial institution:** The fund is managed by BT Funds Management (NZ) Limited.
- **Inception date:** 7th January 2007.
- **Investment Objective:** The fund invests in growth assets (such as New Zealand, Australian and international shares) and proposes a capital protection feature.
- **Type of assets:** Mixed assets.

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Sources:
### Profile summary

<table>
<thead>
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<th>Secondary trading</th>
</tr>
</thead>
<tbody>
<tr>
<td>Westpac KiwiSaver-Capital Protection Plan 1</td>
<td>Mixed assets: Risky assets: New Zealand, Australian and international shares. Safe assets: Zero coupon bonds or deposits.</td>
<td>Open-ended</td>
<td>N/A (Annual report not available)</td>
<td>1- A variation of CPPI: Asset allocation varies depending on market conditions. 2- Additional protection: The fund trustee appoints a capital protection provider in return for a fee (percentage of growth assets).</td>
<td>• The Manager will generally calculate a unit price each business day, which will reflect the market value of assets, less any liabilities.</td>
<td>The fund was found neither in New Zealand Stock exchange nor in Debentures Market.</td>
</tr>
</tbody>
</table>
Invesco Wholesale Protected Growth

- **Investment strategy**
  - The Fund is not designed as a short-term investment and the manager recommends a minimum investment timeframe of three years.
  - The Fund is managed on an absolute return basis and should not be compared against a benchmark.
  - The underlying portfolio primarily holds cash, as well as Australian and overseas fixed income securities issued by governments and corporations and some exposure to Australian and overseas shares.
  - The Fund is rated as a low to medium risk fund. The main exposures are foreign currencies and hedging risks.

**Protection strategy: A variation of CPPI**

- The investment approach is to dynamically manage risk in the portfolio to enable the Fund to participate in growth when markets are strong, and to reduce exposure to financial assets in negative environments, thereby protecting the capital with the aim of avoiding a negative return, after fees, for each fiscal year.
- The protection within the portfolio is reset each year, with the aim of allowing investors to preserve any gains from previous years. Portfolios are strictly monitored on a daily basis to ensure their ability to withstand a serious market crisis, and still meet the annual protection objective.

**Additional protection strategy:**

- The Fund may have recourse to derivatives to a limited extent\(^1\).

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### Profile summary

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<th>Valuation Method</th>
<th>Secondary trading</th>
</tr>
</thead>
<tbody>
<tr>
<td>Invesco Wholesale Protected Growth</td>
<td>Mixed assets: Risky assets: Australian and overseas shares. Safe assets: Cash, government and corporate fixed income.</td>
<td>Open-ended</td>
<td>Number of units in '000 as at 30th June 2011: Created: 617 Cancelled: 2,771 (see the note)</td>
<td>1- A variation of CPPI: a) Asset allocation varies depending on market conditions. b) The protection within the portfolio is reset each year. 2- Additional protection: The fund may have recourse to derivatives for hedging purposes.</td>
<td>• Unit prices are generally calculated every Business Day • The fund operates based on Forward Pricing method.</td>
<td>The fund was not found on the Australian Securities Exchange Website¹</td>
</tr>
</tbody>
</table>

### Note

- Movements in number of units for the reporting period ended 30th June 2011²:
  - Number of units created = Applications + Units issues upon reinvestment of distributions = 246 000 + 371 000 = 617 000
  - Number of units cancelled = 2,771 000

Macquarie Winton Global Opportunities Trust

Investment strategy

- Winton seeks to generate returns using proprietary research to make inferences about the future performance of over 100 global markets. Winton then implements its views using a portfolio of futures contracts covering equities, fixed income, commodities and currencies. This management style is called “managed futures”.
- According to the fund manager, this type of strategy has the potential to generate returns in falling as well as rising markets. Global themes such as commodity booms and busts, inflation, deflation, and geopolitical events all present potential trends which successful managed futures managers may be able to exploit for profit.
- The investment strategy of the fund is rather complex. It can be summarized as follows.

Macquarie Winton Global Opportunities Trust: The “Trust” is a managed investment scheme to be listed on the Australia Stock Exchange that offers interests (called Units) to investors.

Deferred Purchase Agreement “DPA”: The Trust invests the proceeds of the Offer in the DPA issued by Signum Blue II Limited (“Signum Blue II”), a Cayman Islands incorporated company.


Capital Protection: This is provided by Goldman Sachs International (the “Protection Provider”) to Signum Rated II by the provision of a put option over the Reference Portfolio for the Capital Protected Amount.

Reference Portfolio: It consists of three main investments, the Signum Winton Fund, the Money Market Portfolio and the Eligible Securities. Allocations between these are determined by the Protection Provider under the Threshold Management Rules. The Reference Portfolio may also comprise foreign exchange contracts and interest rate swaps.

Signum Winton Limited: A limited liability company established in the Cayman Islands. Signum Winton Limited’s returns will be ultimately driven by the performance of the Signum Winton Fund, a managed account of Signum Winton Limited.

Financial institution: The fund is managed by Macquarie Investment Management Limited.

Inception date: 1st December 2005.

Investment Objective: The fund offers investors access to the growth potential of an investment managed by Winton Capital Management Limited while providing capital protection at the seventh year of investment term.

Type of assets: Mixed assets.

Source: http://www.macquarie.com.au
Figure 12: Investment Strategy of Macquarie Winton Global Opportunities Trust
Protection strategy:

- The capital protection strategy reposes on two pillars: The capital protection agreement with Goldman Sachs and the Threshold management over the Reference Portfolio.
  - **Capital Protection Put:**
    - The Capital Protection arrangements are designed to ensure that, at a minimum, the Trust receives the value of its initial investment back on the Capital Protection Date. Capital Protection does not apply before or after the Capital Protection Date.
    - Capital Protection is provided by the Protection Provider to Signum Rated II, rather than directly to the Trust or Unit holders, and is subject to certain conditions.
    - The Trust has the indirect benefit of the Protection Provider’s obligation to pay any shortfall between the NAV of the Reference Portfolio and the Capital Protected Amount on the Capital Protection Date.
    - The Protection Provider is prepared to take on this obligation in part because it manages the Reference Portfolio using a method known as Threshold Management.
      - **Threshold management (CPPI)**
        - In order to provide Capital Protection at the Capital Protection Date, the Protection Provider uses “Threshold Management” to minimize its risk of having to pay any shortfall under the Capital Protection Put.
        - On each Business Day throughout the Term, the composition of the Reference Portfolio will be assessed by the Protection Provider and if necessary, be reallocated between the Signum Winton Fund and the Money Market Portfolio (and other assets in the Reference Portfolio) according to the Threshold Management Rules.
        - The Protection Provider uses certain indicators to determine the target allocation to the Signum Winton Fund.
          - The Margin to Equity Ratio of the Signum Winton Fund. This ratio measures the proportion of the Signum Winton Fund used to establish futures positions compared to the NAV of the Signum Winton Fund. This ratio is one measure of the Signum Winton Fund’s exposure to negative (and positive) daily movements in value;
          - The NAV of the Reference Portfolio; and
          - The prevailing interest rate that could be obtained from the Eligible Securities.¹

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¹ Sources:
Product disclosure Statement:
Product Information:
Fund’s Profile:
### Profile summary

<table>
<thead>
<tr>
<th>Fund name</th>
<th>Type of asset</th>
<th>Type of fund</th>
<th>Subscription/Redemption Frequency</th>
<th>Protection technique</th>
<th>Valuation Method</th>
<th>Secondary trading</th>
</tr>
</thead>
<tbody>
<tr>
<td>Macquarie Winton Global Opportunities Trust</td>
<td>Mixed assets: Futures contracts covering equities, fixed income, commodities and currencies.</td>
<td>Closed</td>
<td>Number of units in '000 as at 30th June 2011: Created: 0; Cancelled: 3,436</td>
<td>1- Capital Protection Agreement is provided by the Protection Provider to Signum Rated II, rather than directly to the Trust or Unit holders. 2- CPPI: In order to provide Capital Protection at the Capital Protection Date, the Protection Provider adopts a dynamic asset allocation within the Reference Portfolio depending on its performance.</td>
<td>• The official NAV of the Trust will be calculated after the end of each month. • The NAV of the Trust is equal to the NAV of Signum Blue II's obligations under the DPA and is generally equal to the NAV of the Reference Securities. (see the Note)</td>
<td>Yes</td>
</tr>
</tbody>
</table>

### Note
- The NAV of the Reference Security equals the NAV of the Reference Portfolio divided by the number of Reference Securities outstanding.
- The NAV of the Reference Portfolio equals the aggregate value of the assets comprising the Reference Portfolio minus accrued fees, and interest, as determined by the Protection Provider in accordance with the Note Program Deed.
Pre Select 100% + Cap Protected Growth 1

- **Investment strategy**
  - The Fund offers Unit holders the opportunity to invest in an actively managed portfolio of diversified assets managed by the responsible entity and a number of investment managers across a range of asset classes and investment styles, with an element of protection of initial capital invested.
  - The Fund will invest in the DWS Multi-manager Growth Fund (also managed by Deutsche Managed Investments Limited) to gain exposure to growth oriented assets. The Fund will have exposure to derivative investments and may also have exposure to cash deposits to facilitate the offering of capital protection on the initial capital invested by Unit holders.

**Protection strategy:**
- The capital protected price will initially be determined at the end of the application period by reference to the highest Net Asset Value the Fund achieves on the last business day of any one month during the application period (29 June 2007 – 31 May 2008), divided by the number of units on issue that day.
- Between 29 June 2007 – 31 May 2013, the capital protection only applies to investments (including distributions which are reinvested) held until and redeemed on the capital protection maturity date.
- The fund uses CPPI to provide the capital protection: it involves a dynamic asset allocating between a low risk asset class (cash deposits with Deutsche Bank AG, a London branch) and a growth oriented asset class (the DWS Multi-manager Growth Fund).
- During the protection period, asset allocation can fluctuate according to market conditions (0% to 100% DWS Multi-manager Growth Fund, 0% to 100% Cash Deposits). However, if the Fund holds a substantial amount of low-risk assets “cash deposits”, there will be less opportunity for the Fund to obtain growth beyond the return it can earn on those cash deposits.
- Following the capital protection maturity date, it is intended that the Fund will generally have the following asset allocation investment ranges (90% to 100% DWS Multi-manager Growth Fund, 0% to 10% Cash Deposit).

**Additional protection:**
- Coupled with the CPPI strategy, the Fund will also invest in a derivative instrument issued by Deutsche Bank AG (London branch) in order to cover the risk that the Fund might not hold sufficient cash deposits to deliver the capital protected price on the capital protection maturity date in the event of an unexpected market movement. If this derivative instrument is exercised during the capital protection period, the Fund assets will be allocated wholly to cash deposits for the remainder of the capital protection period until the capital protection maturity date.
<table>
<thead>
<tr>
<th>Fund name</th>
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<th>Protection technique</th>
<th>Valuation Method</th>
<th>Secondary trading</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pre Select 100%+ Cap Protected Growth1</td>
<td>Mixed Assets: Safe assets: Cash Deposits. Risky assets: DWS Multi-manager Growth Fund shares.</td>
<td>Closed</td>
<td>N/A (Annual report not available)</td>
<td>CPPI: a) The fund dynamically allocates its assets according to market movement, though it favors growth assets as per the fund objective. Additional Protection: b) The fund has recourse to derivatives to face liquidity risk at the maturity date.</td>
<td>• Unit prices are generally calculated on the last business day of each month based upon the NAV of the Fund divided by the number of units on issue in the Fund.</td>
<td>The fund was not found on the Australian Securities Exchange Website(^1)</td>
</tr>
</tbody>
</table>

STRIPES Global Financial Titans

- **Investment strategy**
  - Investors will receive an exposure to the Dow Jones Banks Titans 30 Index (Bloomberg DJTBAK). The Dow Jones Sector Titans Indexes are constructed to provide exposure to the world's biggest and best-known companies, aiming to reduce risk by including only the most-established stocks.
  - The fund is of a four year term and it offers monthly liquidity through the ability to sell back STRIPES to JPMIAL.
  - JPMIAL intends to publish monthly valuations for STRIPES and accept offers to sell STRIPES back to JPMIAL on a monthly basis. As a result, JPMIAL will, from time to time purchase securities including STRIPES from Investors and Investors may offer to sell their STRIPES to JPMIAL prior to the Maturity Date.
  - The Dynamic Portfolio in STRIPES is made up of an Equity Asset and a Cash Asset. For STRIPES, the Equity Asset is the Dow Jones Banks Titans 30 Index. The Cash Asset for the Dynamic Portfolio is a notional investment in cash that earns a return based on Australian dollar swap rates.

**Protection strategy: (CPPI)**
- The Dynamic Portfolio is designed to provide exposure to the Equity Asset in the portfolio up to 200%, while ensuring that the Investor’s Principal is 100% returned at the Maturity Date. This is achieved by actively allocating between the Equity Asset and a Cash Asset in accordance with a set of predefined rules – the Dynamic Portfolio Rules.
- Investments are more towards equity assets. Actually, maximum equity exposure is set at 200%, initial target equity exposure is estimated at 100% and the minimum exposure is set at 20%.
- The Dynamic Portfolio Rules work on the basis of two concepts, an Investment Floor which represents the current cost to buy a Cash Asset that would pay out an amount equal to the Initial Dynamic Portfolio Value on the Maturity Date (“Investment Floor”), and a Cushion which represents the difference between the Dynamic Portfolio Value and the Investment Floor (“Cushion”).
- The allocation between the Equity Asset and the Cash Asset within the Dynamic Portfolio is determined on each Rebalancing Date and if required, rebalanced in accordance with the Dynamic Portfolio Rules. Instead of waiting for the Dynamic Portfolio Value to fall to the then Investment Floor, a gradual rebalancing is made as the performance of the Equity Asset and the Dynamic Portfolio Value rises and falls. This helps to ensure that the value of the Equity Asset in the Dynamic Portfolio will be sufficient to provide the Initial Dynamic Portfolio Value at the Maturity Date. It also provides an efficient exposure to the Equity Asset, given the assumptions made about the Equity Asset, which determine the Crash Size.\(^1\)

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1. **Sources:**

\(^*\)As the fund has matured since 22 June 2012, none of its documentation is available online.
### Profile summary

<table>
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<tr>
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<th>Type of asset</th>
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<th>Valuation Method</th>
<th>Secondary trading</th>
</tr>
</thead>
<tbody>
<tr>
<td>STRIPES Global Financial Titans</td>
<td><strong>Equity:</strong> Dow Jones Banks Titans 30 Index. <strong>Risky asset:</strong> Dow Jones Banks Titans 30 Index. <strong>Safe assets:</strong> A notional investment in cash which earns interest based on the Australian dollar swap rates.</td>
<td>Closed</td>
<td>N/A (Annual report not available)</td>
<td><strong>CPPI:</strong>&lt;br&gt;a) Investing in safe assets so that their final value plus the yield is equivalent to the value of initial fund assets.&lt;br&gt;b) Investments are more towards equity assets: maximum equity exposure is set at 200%, initial target equity exposure is 100% and the minimum exposure is 20%.</td>
<td><strong>The NAV of the funds is calculated based on forward pricing on each business day. (see the Note)</strong></td>
<td>Not Listed in the Australian Securities Exchange</td>
</tr>
</tbody>
</table>

### Note

- The Portfolio Value: The value of the notional investment in the Dynamic Portfolio as determined by reference to the Value of the Equity Asset, plus the Value of the Cash Asset, minus the amount of any leverage, minus the Equity Asset Fee, Cash Asset Fee and Borrowing Costs which are deducted from the Dynamic Portfolio on each Valuation Date.(Valuation Date is every Business Day during the Term)
- Value of the Equity Asset: The value of the Equity Asset at the Valuation Time on each Valuation Date as determined by JPMIAL.
- Value of the Cash Asset: The Cash Asset at the Valuation Time on any Valuation Date represents the present value of a synthetic zero coupon bond that would mature at the Initial Equity Dynamic Portfolio Value on the Maturity Date
DBS Sprint Capital Protected

- **Investment strategy**
  - Being a unit trust, the Fund is also a sub-fund under the umbrella unit trust known as the DBSAM (DBS Asset Management) Unit Trust Funds.
  - The Fund’s objectives are as follow:
    - 100% capital protection at the end of the eight-year maturity period, which is ending 1 December 2012.
    - A Fixed Payout of 6.5% of the capital invested after a year of the commencement date.
    - Variable Payouts linked to the performance of the synthetic interest rate for deposits in Singapore Dollars (the “SGD-SOR-Telerate Arrears”), to be paid after each successive anniversary after the first anniversary of the commencement date. (In total, there would be 7 Variable Payouts)

- **Protection strategy:**
  - In order to provide investors with 100% capital protection, the Fund will invest 100% of its net assets in a combination of debt securities issued by corporations, governments, government agencies or supranationals.
  - These debt securities shall be selected at the discretion of the Managers upon consultation with DBS Bank Ltd (“DBS”).
  - Interest earned from the above mentioned securities will be swapped with DBS Bank in exchange for the Fixed Payout and the seven Variable Payouts.

- **Financial institution:** The fund is managed by Nikko Asset Management Asia Limited.
- **Inception date:** 12th March 2004.
- **Investment Objective:** The fund’s aim is to seek capital appreciation while providing full capital protection for investors at the end of the maturity period of 8 years.
- **Type of assets:** Bond.

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1 Sources:
Fund’s profile: http://www.bloomberg.com/quote/DBSSPCP:SP
### Profile summary

<table>
<thead>
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<th>Valuation Method</th>
<th>Secondary trading</th>
</tr>
</thead>
<tbody>
<tr>
<td>DBS Sprint Capital Protected</td>
<td><strong>Bond:</strong> Safe assets: A combination of debt securities issued by corporations, governments, government agencies or supranationals.</td>
<td>N/A</td>
<td>Investing in safe assets: Protection is ensured by investing in debt securities.</td>
<td>• The NAV of the fund is calculated based on forward pricing and is published each business day.</td>
<td>The fund was not found in Singapore Exchange Website²</td>
</tr>
</tbody>
</table>

2. [http://www.sgx.com](http://www.sgx.com)

Number of units as at 30th June 2011: 408,325

Created: 0
Cancelled: 408,325
GreatLink Choice (Dec 2013)

- **Investment strategy**
  - GreatLink Choice (Dec 2013) is an investment-linked insurance fund established in Singapore.
  - The Fund objective is to seek to provide policyholders with:
    - Policyholders will have to hold their investments in the GreatLink Choice for the entire policy term of 7 years before they are eligible to receive the total payouts projected and 100% of their principal invested at maturity.
  - The fund performance is benchmarked to an index: 7-year Singapore swap rate (mid rate) taken on the start of the initial offer period on 1 November 2006, i.e. 3.465%
  - Collateral was held in cash since 30 October 2009.

- **Protection strategy**
  - Capital protection is ensured by investing in low risk debt securities. Actually, capital raised less all charges deducted is invested in notes (the “Signum Notes”) issued by Signum Platinum Limited “SPL”, which are rated at a minimum rating of “AA” by Standard & Poor’s on the Inception Date.
  - The annual payouts and return of principal invested are provided for by the debt securities and derivative transactions employed as part of the investment approach of the funds and not backed by a guarantee.
  - Policyholders may lose part or all of their investment in the funds in the event of a downgrade of the debt securities, default by the issuers of the debt securities, a default of the swap counterparty to the derivative transactions or an early redemption of the Note.
  - Additional protection:
    - The default risk, liquidation risk, foreign currency risk, and early redemption risk on the Collateral will be borne by Goldman Sachs International (“GSI”) under the obligation of a Total Return Swap between SPL and GSI.\(^1\)

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1Sources:
Fund’s report:  
Fund’s profile:  
### Profile summary

<table>
<thead>
<tr>
<th>Fund name</th>
<th>Type of asset</th>
<th>Type of fund</th>
<th>Subscription/Redemption Frequency</th>
<th>Protection technique</th>
<th>Valuation Method</th>
<th>Secondary trading</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>GreatLink Choice (Dec 2013)</strong></td>
<td><strong>Bond:</strong> “AA” Signum Platinum Limited notes.</td>
<td>Open-ended</td>
<td>N/A</td>
<td>Investing in safe assets: Capital invested less charges is invested in “AA” notes.</td>
<td>• The NAV of the fund is calculated based on forward pricing on the last business day of each month.</td>
<td></td>
</tr>
<tr>
<td></td>
<td><strong>Additional Protection:</strong></td>
<td></td>
<td></td>
<td>To hedge against different risks, the fund will swap returns of the SPL notes with Goldman Sachs International in a Total Return Swap Agreement.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

OSK-UOB Capital Protected Gold
Guru Fund

➢ Investment strategy

• The fund is suitable for investors who:
  o have a very low risk tolerance, since investments are primarily made in debt securities.
  o seek capital appreciation from the potential returns from the different asset classes under the Gold Guru Strategy, on the maturity date (4 years as from the inception).
  o seek 100% capital protection on the maturity date, and
  o have a medium term investment horizon.

Protection Strategy

• The fund offers investors capital protection from its investments in debt securities and potential returns from its investments in the Option.
• 88% to 95% of net assets value: Investments in 4-year Zero Coupon Negotiable Instruments of Deposits (ZNIDs) issued.
• Up to 10% Investment in the 4-year over the counter call option whose underlying asset is the Gold Guru Strategy (Option) to generate the returns of the funds.
• Up to 2% of Net Asset Value: liquid assets.¹

➢ Financial institution: The fund is managed by OSK-UOB Unit Trust Management Berhad.
➢ Inception date: 13th August 2009.
➢ Investment Objective: The objective of the Fund is to provide capital appreciation over the medium term whilst protecting investors' capital on the Maturity date.
➢ Type of assets: Bond.

¹ Sources:
### Profile summary

<table>
<thead>
<tr>
<th>Fund name</th>
<th>Type of asset</th>
<th>Type of fund</th>
<th>Subscription/Redemption Frequency</th>
<th>Protection technique</th>
<th>Valuation Method</th>
<th>Secondary trading</th>
</tr>
</thead>
<tbody>
<tr>
<td>**OSK-UOB Capital Protected Gold **&lt;br&gt;Guru Fund</td>
<td>Bond: Safe assets: Zero Coupon Negotiable Instruments of Deposits and liquid assets. Risky assets: OTC call options linked to Gold.</td>
<td>Closed</td>
<td>Number of units in ‘000 as at 31&lt;sup&gt;st&lt;/sup&gt; March 2011&lt;sup&gt;1&lt;/sup&gt;: Created: 0 Cancelled: 11,250</td>
<td>1- Bonds+ Call options: a) To preserve the capital above 88% of net assets value, it is invested in zero coupon negotiable instruments. b) Options are used to generate returns.</td>
<td>• The NAV calculation is based on forward pricing. • The fund valuation is conducted every Friday.</td>
<td>The fund does not appear in the listed security lists.&lt;sup&gt;2&lt;/sup&gt;</td>
</tr>
</tbody>
</table>

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RHB Dynamic Oil-Gold Capital Protected

➢ Investment strategy

The fund is a 3-year capital protected fund suitable for investors who have a low risk profile and want to have exposure to both the oil and gold via a dynamic asset allocation strategy.

Protection Strategy

➢ The fund offers investors capital protection from its investments in debt securities and potential returns from its investments in OTC Options.

➢ The Fund will invest at least 85% of the capital raised during the Initial Offer Period in Zero-coupon Negotiable Instruments of Deposits (“ZNIDs”). Upon maturity of the Fund, the ZNIDs invested will return a value equivalent to 100% of the capital invested by investors. This capital protection covers the investors’ capital investment and the sales charge payable by the investors.

➢ Up to 10% of the Fund’s NAV will be invested in an over-the-counter (“OTC”) option. The option is linked to the performance of the Option Strategy, which maximizes its return through dynamic investment into either oil or gold.

➢ Up to 5% of the Fund’s NAV is held in cash or cash equivalents.¹

➢ Financial institution: The fund is managed by RHB Investment Management Sdn. Berhad.

➢ Inception date: 11th March 2011.

➢ Investment Objective: The Fund seeks to provide capital protection at the maturity of the Fund and capital growth over the tenure of the Fund.

➢ Type of assets: Bond.

¹ Sources:
<table>
<thead>
<tr>
<th>Fund name</th>
<th>Type of asset</th>
<th>Type of fund</th>
<th>Subscription/Redemption Frequency</th>
<th>Protection technique</th>
<th>Valuation Method</th>
<th>Secondary trading</th>
</tr>
</thead>
</table>
| RHB Dynamic Oil-Gold Capital Protected | **Bond:** Safe assets: Zero Coupon Negotiable Instruments of Deposits and liquid assets. Risky assets: OTC options linked to Oil and Gold. | Open-ended   | N/A (Annual report not available)  | 1- **Bonds + Call options:**  
   a) To preserve the capital, at least 85% of net assets value is invested in zero coupon negotiable instruments.  
   b) OTC Options linked to oil and gold performance are used to generate returns.  

   • The fund is valued at fair value on daily basis and in compliance with the SC’s valuation guidelines.  

   The fund's does not appear in the listed security lists.¹ |
PNB Structured Investment

Investment strategy

- PNB Structured Investment Fund is a 5-year closed-end unit trust established in Malaysia.
- Though it has a capital protected mechanism embedded in its structure, it is not considered as a capital protected fund. It is rather categorized as an income and growth fund that generates reasonable returns throughout its tenure.
- In selecting its investments, the Fund searches for strong undervalued investment opportunities that show potential for long-term capital appreciation as well as income. The Fund will be investing in a diversified portfolio of Structured Products, PNB REIT, cash equivalent instruments and any other investments permitted by the Deed. Assets are allocated as follows:
  - Up to 80% NAV in Structured Products: Ringgit-denominated products that are principal protected upon maturity. For diversification purposes in Structured Products, the Fund will be investing in a portfolio of Structured Products with exposure linked to one or more assets such as global equities, interest rates, indices or any other underlying(s), as may be permitted under the Deed.
  - Up to 50% NAV in PNB REIT: these offer potential regular income and upside potential through exposure in properties. PNB REIT has principal protection features.
  - Up to 80% NAV investments that are permitted by the Deed: these include a diversified portfolio of listed securities, unlisted securities and fixed income securities in Malaysia or any other Eligible Market.
  - A minimum of 2% NAV will be invested in cash equivalent instruments and money market instruments to meet liquidity requirements.

Protection Strategy

- Capital protection mechanism is embedded within portfolio components. Actually, capital can be preserved through investments in a combination of Structured Products and PNB REIT whilst capitalizing on the returns derived from investing in a PNB REIT as well as the potential returns of investing in Structured Products derived from exposure to the performance of the underlying asset(s).
  - **Structured Products’ capital protection mechanism:**
- Principal protection may be sought through financial instruments purchased by the issuer, as deemed appropriate for protecting the principal invested in the Structured Products. Such financial instruments may in turn be managed under Dynamic Investment Allocation Mechanism (DIAM).
- The financial instruments could take the form of money market instruments (which generate income on a short term low risk basis) and/or fixed income instruments (which

Financial institution: The fund company is Amanah Mutual Berhad.

Inception date: 12th May 2008.

Investment Objective: The Fund seeks to provide investment opportunities that generate reasonable returns and growth over the tenure of the Fund while endeavoring to provide capital protection to Units Holders.

Type of assets: Mixed assets.

are bought at a discount to provide a nominal value equivalent to the capital sought to be protected at maturity. Interest earned or money not invested on those financial instruments may be used to purchase option(s) on the underlying(s).

- Under the DIAM, exposure is allocated between the underlying and risk free asset(s), depending on the performance of the underlying. Should the underlying underperform; more exposure is then allocated to the risk free asset(s).
  - **PNB REIT capital protection mechanism:**
- PNB REIT has principal protection features whereby its properties have a buy-back option from the respective vendors to repurchase the properties at the highest price offered by third party purchasers or the original purchase price plus capital expenditure on the respective property, whichever is the higher, and subject to the REITs Guidelines.  

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Prospectus:  
### Profile summary

<table>
<thead>
<tr>
<th>Fund name</th>
<th>Type of asset</th>
<th>Type of fund</th>
<th>Subscription/Redemption Frequency</th>
<th>Protection technique</th>
<th>Valuation Method</th>
<th>Secondary trading</th>
</tr>
</thead>
</table>
| **PNB Structured Investment** | **Mixed assets:** Ringgit-denominated Structured Products, PNB REIT, cash equivalent instruments, portfolio of listed securities, unlisted securities and fixed income securities in Malaysia or any other Eligible Market. | Closed       | N/A *(Annual report not available)* | Embedded capital protection in portfolio components:  
  a) Structured products capital protection mechanism: Combines **safe assets + option** strategy and **Dynamic asset allocation** between safe assets and underlying assets.  
  b) PNB REIT capital protection mechanism: properties have a **buy back option** from the respective vendors. | • The NAV per Unit is computed on Forward Pricing basis and is daily published. | The fund does not appear in listed security lists.¹ |

¹ List of Malaysian listed securities: http://www.bursamalaysia.com/website/bm/market_information/isin.html
Faysal Savings Growth Fund

- **Investment strategy**
  - The corpus of the Fund, in line with its Investment Objectives, will be investing in a range of liquid money market & debt instruments.
  - The investment portfolio will primarily comprise of Government of Pakistan Investment Bonds, Federal Investment Bonds, Bank Deposits, Treasury Bills, listed or privately placed debt securities, Certificates of Investments and other securities allowed by Securities & Exchange Commission of Pakistan.

**Protection Strategy**

- The foundation of capital protection is the type of assets that compose the fund's portfolio.
- As outlined above, the fund invests primarily in money market and debt securities having good credit rating and liquidity. Besides, the fund has a low risk profile and targets reasonable returns.

**Additional protection:**

- The manager may seek to enhance the return on the Fund or to protect its value through derivatives. The investment in this class shall only be for hedging purposes.²

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> **Profile summary**

<table>
<thead>
<tr>
<th>Fund name</th>
<th>Type of asset</th>
<th>Type of fund</th>
<th>Subscription/Redemption Frequency</th>
<th>Protection technique</th>
<th>Valuation Method</th>
<th>Secondary trading</th>
</tr>
</thead>
</table>
| **Faysal Savings Growth Fund** | **Bond:** Safe assets: Money market instruments and government/public debt securities. | Open-ended   | Number of units as at 30th June 2011¹: 91,173,577 Created: 91,173,577 Cancelled: 115,467,362 | 1- **Investing in safe assets:**
The fund invests primarily in money market and debt securities with good credit rating.

2- **Additional protection:**
The manager is allowed to invest in derivatives for hedging purposes.
| • The NAV is calculated using forward pricing and on a daily basis after the close of the Stock Exchange(s) / Financial Market(s) | Yes |
KASB Capital Protected Gold Fund

Investment strategy
The fund aims to realize reasonable returns commensurate with the low risk inherent investment profile and in line with the capital protection objective.

Protection Strategy
- The fund makes a distinction between the “capital protected portion” and the “investment portion”.
- **Capital protected portion**: The fund protects investors’ capital at maturity through the investment structure by placing a significant percentage of the Fund as term deposit(s) with Scheduled Commercial Bank(s) or Development Finance Institutions (DFIs) having a minimum long term rating of ‘AA-’ assigned by credit rating agency registered with the Commission.
- **Investment Portion**: Remaining funds are utilized to gain exposure to Gold through the Commodity Exchange listed gold contracts in Pakistani Rupees providing higher return possibilities; they could be kept in cash if the fund management believes an investment in gold to be unattractive at any point.

Financial institution: The fund is managed by KASB Fund Limited.
Inception date: 19th March 2010.
Investment Objective: The fund aims to protect investors’ capital upon maturity of the Fund i.e 2 years and is ideal for all investors who want to take advantage of the growth in the value of Gold as an asset class in Rupee terms.
Type of assets: Bond.

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Sources:
### Profile summary

<table>
<thead>
<tr>
<th>Fund name</th>
<th>Type of asset</th>
<th>Type of fund</th>
<th>Subscription/Redemption Frequency</th>
<th>Protection technique</th>
<th>Valuation Method</th>
<th>Secondary trading</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>KASB Capital Protected Gold Fund</strong></td>
<td><strong>Bond:</strong> Safe assets: Term deposits in commercial banks or development finance institutions, cash and cash equivalent. Risky assets: Limited exposure to Commodity Exchange listed gold contracts.</td>
<td>Open-ended</td>
<td>Number of units as at 30th June 2011: Created: 133,073 (as bonus units) Cancelation: 141,447</td>
<td></td>
<td></td>
<td>Yes</td>
</tr>
</tbody>
</table>

**Investing in safe assets:** The bulk of the initial capital is invested in Term Deposits having a minimum long term rating of “AA-”.

- The NAV is calculated using Forward Day Pricing.

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1 Annual report of the 30th June 2011: http://www.kasb.com/sitedata/downloads/Funds/20111103122859346_KCPGF.pdf
SBI Capital Protection Oriented Fund - Series I

- **Investment strategy**
  - To provide regular income, liquidity and returns to the investors, the fund would generally apply the following asset allocation:
    - Debt Securities & Money market instruments are allocated to 73% to 100% of the assets’ value. These have medium to low risk profile.
    - Securitized Debts (part of Debt securities) could be allocated 0% to 20% of assets’ value. These have Medium risk profile.
    - Equity and equity related instruments including derivatives could be allocated 27% of the assets’ value.

**Protection Strategy**
- The bulk of the investment portfolio is allocated to low to medium risk profile assets while the component remains very limited (less than 27%).
- Debt Investments will be in Government Securities and in securities having the highest investment grade rating. Investments in debt securities in the scheme will be largely limited to those having maturities not exceeding the residual maturity of the scheme. The scheme will invest in fixed debt instruments only.
- The scheme shall follow a passive investment strategy for the fixed income component.

**Additional protection**
- To a limited extent, the fund is allowed to use rebalancing techniques and derivatives for hedging purposes.

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**Sources:**
Fund’s Profile: [http://www.sbimf.com/Products/HybridSchemes/SBI_Capital_Protection_Oriented_Fund_Series_I.aspx](http://www.sbimf.com/Products/HybridSchemes/SBI_Capital_Protection_Oriented_Fund_Series_I.aspx)
<table>
<thead>
<tr>
<th>Fund name</th>
<th>Type of fund</th>
<th>Type of asset</th>
<th>Protection technique</th>
<th>Secondary trading</th>
<th>Valuation Method</th>
</tr>
</thead>
<tbody>
<tr>
<td>SBI Capital Protection Oriented Fund - Series I</td>
<td>Close-ended</td>
<td>Mixed assets: Safe assets: Debt securities and money market instruments, Risky assets: Equity</td>
<td>1-Investing in safe assets: More than 73% of the assets’ value is invested in AAA fixed debt securities, 2-Additional protection: The fund may use rebalancing techniques and derivatives for hedging purposes.</td>
<td>No</td>
<td>The NAV is calculated using Forward Pricing and is published on a weekly basis.</td>
</tr>
</tbody>
</table>

**Additional Notes:**
- N/A (Annual report not available)
Sundaram Capital Protection Oriented Fund 5 Years

**Investment strategy**
- The objective of this Scheme would be to seek income and minimize risk of capital loss by investing in a portfolio of fixed-income securities. The scheme may invest a part of the assets in equity to seek capital appreciation.
- The Asset Allocation pattern of the scheme would be as follows:
  - Fixed-income securities including money market instruments, if any, 70%-100% of the NAV.
  - Equity and equity related instruments 0-32% of the NAV.
- The Scheme's portfolio structure has been rated as AAA for its capital protection orientation (by CRISIL, the Indian rating agency, a Standard & Poor company\(^1\)). This rating indicates the highest degree of certainty regarding payment of the face value of the investment to unit holders.

**Protection Strategy**
- The Scheme shall ensure capital protection orientation by adopting a Static Hedge approach. Capital protection will be provided solely through the fixed-income component of the portfolio.
- The fixed-income portfolio shall be invested in securities that mature to the capital value (initial consideration) at the end of the scheme.
- The scheme shall follow a passive investment strategy for the fixed income components. These are invested on a held-to-maturity basis in order to avoid the impact of market risk on account of interest rate movements.
- As investments will be in fixed-income securities of highest investment grade, the risk of default is mitigated.
- The remainder (the difference between the capital raised and present value of the capital) is invested in equity, which could provide a possible upside to the fund. Appreciation in the equity component, if any, constitutes additional returns to the scheme.
- The scheme may review the above pattern of investments based on views on the debt markets and asset-liability management needs. The portfolio shall be reviewed on a regular basis.\(^2\)

**Additional protection:**
- Trading in derivatives shall be restricted to hedging and portfolio balancing purposes. The scheme will use derivative instruments such as interest rate swaps, options on interest rate and forward rate agreements, to name a few.
- Exposure to derivatives will be limited to 50% of the Net Asset Value of the scheme at

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\(^1\) [http://www.crisil.com/index.jsp](http://www.crisil.com/index.jsp)

\(^2\) Sources:
the time of a transaction. Exposure is calculated as the notional value as a percentage of net assets of the scheme.

- The scheme shall fully cover its positions in the derivatives market by holding underlying securities/cash or cash equivalents/option and/or obligations for acquiring underlying assets to honor the obligations contracted in the derivatives market. Separate records shall be maintained for holding the cash and cash equivalents/securities for this purpose. The securities held shall be marked-to-market by the Investment Manager to ensure full coverage of investments made in derivative products at all times.
### Profile summary

<table>
<thead>
<tr>
<th>Fund name</th>
<th>Type of asset</th>
<th>Type of fund</th>
<th>Subscription/Redemption Frequency</th>
<th>Protection technique</th>
<th>Valuation Method</th>
<th>Secondary trading</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sundaram Capital Protection Oriented Fund 5 Years</td>
<td>Mixed assets: Safe assets: Fixed income securities including money market instruments, cash and cash equivalent. Risky assets: Equity.</td>
<td>Closed-end</td>
<td>Number of units as at 31st March 2011: Created: 0 Cancelation: 171,000</td>
<td>1- Investing in safe assets: The fund adopts a static hedging strategy by holding to maturity highly rated fixed income securities that constitute 70% to 100% of the NAV. 2- Additional protection: The fund is allowed to invest up to 50% of the NAV in fixed income derivatives for hedging purposes only.</td>
<td>Yes³</td>
<td></td>
</tr>
</tbody>
</table>

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Birla Sun Life Capital Protection Oriented Fund-Series 1

- **Investment strategy**
  - The Asset Allocation pattern of the scheme would be as follows:
    - Debt securities and money market instruments, 80% to 100% of the NAV.
    - Equity and equity related instruments, 0-20% of the NAV.
  - Birla Sun Life Capital Protection Oriented Fund - Series 1 is rated AAA by CRISIL. The rating indicates the highest degree of certainty regarding payment of face value of investment.

- **Protection Strategy**
  - The Scheme shall ensure capital protection orientation by adopting a Static Hedge approach. Capital protection will be provided solely through the fixed-income component of the portfolio.
  - The scheme shall invest mainly in highly rated debt securities that mature on or before the date of the maturity of the scheme.
  - Subject to the Regulations, the asset allocation pattern indicated above may change from time to time, keeping in view market conditions, market opportunities, and political and economic factors.

- **Additional protection:**
  - The scheme intends to use OTC and Exchange-traded derivatives like interest rate swaps, forward rate agreement, stock options, stock futures, index options, index futures or other equity derivative instruments as may be introduced from time to time.
  - These instruments should be solely used for hedging purposes and subject to certain investment restrictions.¹

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¹ Sources:
Prospectus: http://www.fundsupermart.co.in/main/admin/buy/prospectus/prospectusBSL0410.pdf
### Profile summary

<table>
<thead>
<tr>
<th>Fund name</th>
<th>Type of asset</th>
<th>Type of fund</th>
<th>Subscription/Redemption Frequency</th>
<th>Protection technique</th>
<th>Valuation Method</th>
<th>Secondary trading</th>
</tr>
</thead>
</table>
| **Birla Sun Life Capital Protection Oriented Fund-Series1** | **Mixed assets:** Safe assets: Fixed income securities including money market instruments, cash and cash equivalent. Risky asset: Equity. | Closed-end¹ | Number of units as at 31³ March 2011²: Created: 0 Canceled: 0 | **1- Investing in safe assets:** The fund adopts a static hedging strategy by holding to maturity highly rated fixed income securities that constitute 80% to 100% of the NAV.  
**2- Additional protection:** The fund is allowed to invest in derivatives to a limited extent, for hedging purposes only. | • The NAV is computed at the end of each working day in accordance with SEBI regulations. | Yes³ |

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1 No redemption/repurchase of units shall be allowed prior to the maturity of the scheme. Investors wishing to exit may do so through stock exchange mode.  
Axis Capital Protection Oriented Fund - Series 1

- **Investment strategy**
  - The fund is a 3 year closed ended fund.
  - The Asset Allocation pattern of the scheme would be as follows:
    - Debt securities and money market instruments, 80% to 100% of the NAV.
    - Equity and equity related instruments, 0-20% of the NAV.
  - The scheme shall not make any investments in securitized debt and unrated debt securities.
  - The proposed portfolio structure has been evaluated by ICRA, a SEBI registered credit rating agency from the view point of assessing the degree of certainty for achieving the objective of capital protection. The rating would be reviewed on quarterly basis.

**Protection Strategy**
- The scheme will follow a passive investment strategy for the fixed income portion. The fund manager will allocate the assets of the scheme between various fixed income securities (that mature on or before the maturity of the scheme) with the objective of protecting the capital at the time of maturity.
- The allocation to fixed income securities shall be done to achieve the objective of capital protection.
- The scheme shall not invest in debt securities rated below AAA or equivalent. The focus of the scheme is on capital protection rather than higher yields. As such, higher yielding (i.e. lower rated) instruments (typically those having yield of more than 100 basis points above the benchmark AAA yields as per CRISIL/ICRA) shall not be part of the investment universe for the scheme.
- The fund manager need not re-balance the equity investment provided the debt portion is sufficient to preserve the capital. Otherwise, the asset allocation will be decided in consultation with the rating agency such that the debt portion will aim, at all times, to preserve the capital.

**Additional protection:**
- The Scheme may invest in various derivative instruments that are permissible under the applicable regulations, for hedging and portfolio balancing purposes.
- Derivatives notional value should not exceed 75% of the fund’s NAV.  

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1. An associate of Moody’s investors services: [http://www.icra.in/](http://www.icra.in/)
### Profile summary

<table>
<thead>
<tr>
<th>Fund name</th>
<th>Type of asset</th>
<th>Type of fund</th>
<th>Subscription/Redemption Frequency</th>
<th>Protection technique</th>
<th>Valuation Method</th>
<th>Secondary trading</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Axis Capital Protection Oriented Fund - Series 1</strong></td>
<td><strong>Mixed assets:</strong> Safe assets: Fixed income securities including money market instruments, cash and cash equivalent. Risky assets: Equity.</td>
<td>Closed-end¹</td>
<td>N/A (Annual report not available)</td>
<td>1- <strong>Investing in safe assets:</strong> The fund adopts a static hedging strategy by holding to maturity highly rated fixed income securities that constitute 80% to 100% of the NAV. 2- <strong>Additional protection:</strong> The fund is allowed to invest in derivatives to a limited extent, for hedging purposes only.</td>
<td>• The NAV is computed at the end of each working day in accordance with SEBI regulations.</td>
<td>Yes²</td>
</tr>
</tbody>
</table>

¹ The Units of the Scheme cannot be redeemed by the Unit holder directly with the Fund until the Maturity Date.

### Summary of Asia protected funds survey

<table>
<thead>
<tr>
<th>Fund's name</th>
<th>Type of assets</th>
<th>Type of fund</th>
<th>Subscription/Redemption Frequency</th>
<th>Protection technique</th>
<th>Valuation Method</th>
<th>Secondary trading</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>New Zealand</strong></td>
<td></td>
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</tr>
</tbody>
</table>
| Liontamer FALLEN ANGELS Series1 (Trust 26)-Booster | **Equity:** Equity index “Fallen Angel” | Closed | N/A (Annual report not available) | A variation of 3rd party protection agreement:  
a) The fund buys financial assets from a Fund asset Provider, which is the KBC Bank.  
b) The fund asset provider is liable to pay index-linked returns and to ensure 90% capital protection. | • Value prior to maturity: The NAV is calculated by estimating the market value of the assets. The Fallen Angel index is estimated at market value each month.  
• Hold to maturity  
Valuation: represents what the value of each unit would be, assuming it was maturing today and had been held for the full term. It gives an indication to the investors on how their units are performing at the time of calculation. | Listed in “New Zealand Debentures Exchange”. |
| Westpac KiwiSaver-Capital Protection Plan 1 | **Mixed assets:**  
Risky assets: New Zealand, Australian and international shares.  
Safe assets: Zero coupon bonds or deposits. | Open-ended | N/A (Annual report not available) | A variation of CPPI:  
Asset allocation varies depending on market conditions.  
Additional protection: The fund trustee appoints a capital protection provider in return for a fee (percentage of growth assets). | • The Manager will generally calculate a unit price each business day, which will reflect the market value of assets, less any liabilities. | The fund was found neither in New Zealand Stock exchange nor in Debentures Market. |
<p>| Australia | Invesco Wholesale Protected Growth | Mixed assets: Risky asset: Australian and overseas shares. Safe assets: Cash, government and corporate fixed income. | Open-ended | Number of units in '000 as at June 2011: Created: 617 Canceled: 2,771 (see the note) | A variation of CPPI: a) Asset allocation varies depending on market conditions. b) The protection within the portfolio is reset each year. Additional protection: The fund may have recourse to derivatives for hedging purposes. | • Unit prices are generally calculated each Business Day. • The fund operates based on Forward Pricing method. | The fund was not found in the Australian Securities Exchange Website. |
| Australia | Macquarie Winton Global Opportunities Trust | Mixed assets: Futures contracts covering equities, fixed income, commodities and currencies. | Closed | Number of units in '000 as at 30th June 2011: Created: 0 Canceled: 3,436 Capital Protection Agreement is provided by the Protection Provider to Signum Rated II, rather than directly to the Trust or Unit holders. CPPI: In order to provide Capital Protection at the Capital Protection Date, the Protection Provider adopts a dynamic asset allocation within the Reference Portfolio depending on its performance. | • The official NAV of the Trust will be calculated after the end of each month. • The NAV of the Trust is equal to the NAV of Signum Blue II’s obligations under the DPA and is generally equal to the NAV of the Reference Securities. | Yes |
| Australia | Pre Select 100%+ Cap Protected Growth1 | Mixed Assets: Safe assets: Cash Deposits. Risky assets: DWS Multi-manager Growth Fund shares. | Closed | N/A (Annual report not available) CPPI: The fund dynamically allocates its assets according to market movement, though it favors growth assets as per the fund objective. Additional Protected: The fund has recourse to derivatives to face liquidity risk at the maturity date. | • Unit prices are generally calculated on the last business day of each month based upon the NAV of the Fund divided by the number of units on issue in the Fund. | The fund was not found in the Australian Securities Exchange Website. |</p>
<table>
<thead>
<tr>
<th>Country</th>
<th>Fund Name</th>
<th>Equity</th>
<th>Risky asset</th>
<th>Safe assets</th>
<th>CPPI</th>
<th>Additional Protection</th>
<th>NA</th>
<th>Listed/Not Listed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>STRIPES Global Financial Titans</td>
<td><strong>Equity:</strong></td>
<td>Dow Jones Banks Titans 30 Index.</td>
<td><strong>Safe assets:</strong> A notional investment in cash which earns interest based on the Australian dollar swap rates.</td>
<td><strong>CPPI:</strong> a) Investing in safe assets so that their final value plus the yield is equivalent to the value of initial fund assets. b) Investments are more towards equity assets: maximum equity exposure is 200%, initial target equity exposure is estimated at 100% and the minimum exposure is 20%.</td>
<td><strong>The NAV of the fund is calculated based on forward pricing on each business day.</strong></td>
<td>Not Listed in the Australian Securities Exchange</td>
<td></td>
</tr>
<tr>
<td>Singapore</td>
<td>DBS Sprint Capital Protected</td>
<td><strong>Bond:</strong></td>
<td>A combination of debt securities issued by corporations, governments, government agencies or supranationals.</td>
<td><strong>Safe assets:</strong></td>
<td>Investing in safe assets: Protection is ensured by investing in debt securities.</td>
<td><strong>The NAV of the fund is calculated based on forward pricing and is published each business day.</strong></td>
<td>Not Listed in the Singapore Exchange Website</td>
<td></td>
</tr>
<tr>
<td>Singapore</td>
<td>GreatLink Choice (Dec 2013)</td>
<td><strong>Bond:</strong></td>
<td>“AA” Signum Platinum Limited notes.</td>
<td><strong>Safe assets:</strong></td>
<td>Investing in safe assets: Capital invested less charges is invested in “AA” notes. <strong>Additional Protection:</strong> To hedge against different risks, the fund will swap returns of the SPL notes with Goldman Sachs International in a Total Return Swap Agreement.</td>
<td><strong>The NAV of the fund is calculated based on forward pricing on the last business day of each month.</strong></td>
<td>The mother company is listed but the fund is not listed</td>
<td></td>
</tr>
<tr>
<td>Malaysia</td>
<td>OSK-UOB Capital Protected Gold Guru Fund</td>
<td>RHB Dynamic Oil-Gold Capital Protected Bond</td>
<td>PNB Structured Investment</td>
<td></td>
<td></td>
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<td>---------------------------</td>
<td></td>
<td></td>
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</tr>
<tr>
<td><strong>Bonds + Call options:</strong></td>
<td>a) To preserve the capital above 88% of net assets value, it is invested in zero coupon negotiable instruments. b) Options are used to generate returns.</td>
<td>a) To preserve the capital, at least 85% of net assets value is invested in zero coupon negotiable instruments. b) OTC Options linked to oil and gold performance are used to generate returns.</td>
<td><strong>Mixed assets:</strong> Ringgit-denominated Structured Products, PNB REIT, cash equivalent instruments, portfolio of listed and unlisted securities, fixed income securities.</td>
<td></td>
<td></td>
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<td></td>
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</tr>
<tr>
<td><strong>Safe assets:</strong> Zero Coupon Negotiable Instruments of Deposits and liquid assets.</td>
<td><strong>Risky assets:</strong> OTC call options linked to Oil and Gold.</td>
<td><strong>Risky assets:</strong> OTC call options linked to Oil and Gold.</td>
<td><strong>Embedded capital protection in portfolio components:</strong> a) Structured products capital protection mechanism: Combines safe assets+ option strategy and Dynamic asset allocation between safe assets and underlying assets. b) PNB REIT capital protection mechanism: properties have a buy back option from the respective vendors.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Number of units in 000 as at 31st March 2011:</strong></td>
<td>Created: 0</td>
<td>Open-ended</td>
<td>N/A (Annual report not available)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Canceled: 11,250</td>
<td></td>
<td>Closed</td>
<td></td>
<td></td>
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</tr>
<tr>
<td><strong>Bonds + Call options:</strong></td>
<td></td>
<td></td>
<td></td>
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<td></td>
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</tr>
<tr>
<td><strong>Safe assets:</strong> Zero Coupon Negotiable Instruments of Deposits and liquid assets.</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Risky assets:</strong> OTC call options linked to Gold.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Number of units in 000 as at 31st March 2011:</strong></td>
<td>Created: 0</td>
<td>Open-ended</td>
<td>N/A (Annual report not available)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Canceled: 11,250</td>
<td></td>
<td>Closed</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Bonds + Call options:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Safe assets:</strong> Zero Coupon Negotiable Instruments of Deposits and liquid assets.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Risky assets:</strong> OTC call options linked to Gold.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Number of units in 000 as at 31st March 2011:</strong></td>
<td>Created: 0</td>
<td>Closed</td>
<td>N/A (Annual report not available)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Canceled: 11,250</td>
<td></td>
<td>Closed</td>
<td></td>
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<td></td>
</tr>
<tr>
<td><strong>Bonds + Call options:</strong></td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td><strong>Safe assets:</strong> Zero Coupon Negotiable Instruments of Deposits and liquid assets.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Risky assets:</strong> OTC call options linked to Gold.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The fund's name does not appear in listed security lists.

- The NAV calculation is based on forward pricing.
- The fund valuation is conducted every Friday.
- The fund is valued at fair value on daily basis and in compliance with the SC's valuation guidelines.
- The NAV per Unit is computed on Forward Pricing basis and is daily published.
<table>
<thead>
<tr>
<th>Country</th>
<th>Fund Name</th>
<th>Bond:</th>
<th>Number of units as at 30th June 2011:</th>
<th>Investing in safe assets:</th>
<th>Additional protection:</th>
<th>The NAV is calculated using forward pricing and on a daily basis after the close of the Stock Exchange(s) / Financial Market(s)</th>
<th>Yes/No</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pakistan</td>
<td>Faysal Savings Growth Fund</td>
<td><strong>Safe assets</strong>: Money market instruments and government/ public debt securities.</td>
<td></td>
<td>The fund invests primarily in money market and debt securities with good credit rating.</td>
<td>The manager is allowed to invest in derivatives for hedging purposes.</td>
<td></td>
<td>Yes</td>
</tr>
<tr>
<td>Pakistan</td>
<td>KASB Capital Protected Gold Fund</td>
<td><strong>Safe assets</strong>: Term deposits in commercial banks or development finance institutions, cash and cash equivalent. <strong>Risky assets</strong>: Limited exposure to Commodity Exchange listed gold contracts.</td>
<td></td>
<td>The bulk of the initial capital is invested in Term Deposits having a minimum long-term rating of &quot;AA-&quot;.</td>
<td></td>
<td>• The NAV is calculated using Forward Day Pricing.</td>
<td>Yes</td>
</tr>
<tr>
<td>India</td>
<td>SBI Capital Protection Oriented Fund - Series I</td>
<td><strong>Mixed assets</strong>: <strong>Safe assets</strong>: Debt securities and money market instruments. <strong>Risky assets</strong>: Equity.</td>
<td>N/A (Annual report not available)</td>
<td>More than 73% of assets' value is invested in AAA fixed debt securities.</td>
<td>The fund may use rebalancing techniques and derivatives for hedging purposes.</td>
<td>• The NAV is calculated using Forward Pricing and is published on a weekly basis.</td>
<td>No</td>
</tr>
<tr>
<td>India</td>
<td>Sundaram Capital Protection Oriented Fund 5 Years</td>
<td>Mixed assets: Safe assets: Fixed income securities including money market instruments, cash and cash equivalent. Risky assets: Equity.</td>
<td>Closed-end</td>
<td>Number of units as at 31st March 2011: Created: 0 Cancelation: 171,000</td>
<td>Investing in safe assets: The fund adopts a static hedging strategy by holding to maturity highly rated fixed income securities that constitute 70% to 100% of the NAV. Additional protection: The fund is allowed to invest up to 50% of the NAV in fixed income derivatives for hedging purposes only.</td>
<td>• The NAV is computed at the end of each working day in accordance with SEBI regulations.</td>
<td>Yes</td>
</tr>
<tr>
<td>-------</td>
<td>--------------------------------------------------</td>
<td>--------------------------------------------------</td>
<td>-------------</td>
<td>---------------------------------------------------------------------------------</td>
<td>--------------------------------------------------------------------------------------------------</td>
<td>---------------------------------------------------------------------------------</td>
<td>-----</td>
</tr>
<tr>
<td>India</td>
<td>Birla Sun Life Capital Protection Oriented Fund - Series 1</td>
<td>Mixed assets: Safe assets: Fixed income securities including money market instruments, cash and cash equivalent. Risky assets: Equity.</td>
<td>Closed-end</td>
<td>Number of units as at 31st March 2011: Created: 0 Canceled: 0</td>
<td>Investing in safe assets: The fund adopts a static hedging strategy by holding to maturity highly rated fixed income securities that constitute 80% to 100% of the NAV. Additional protection: The fund is allowed to invest in derivatives to a limited extent, for hedging purposes only.</td>
<td>• The NAV is computed at the end of each working day in accordance with SEBI regulations.</td>
<td>Yes</td>
</tr>
<tr>
<td>India</td>
<td>Axis Capital Protection Oriented Fund - Series 1</td>
<td>Mixed assets: Safe assets: Fixed income securities including money market instruments, cash and cash equivalent. Risky assets: Equity.</td>
<td>Closed-end (Annual report not available)</td>
<td>N/A</td>
<td>Investing in safe assets: The fund adopts a static hedging strategy by holding to maturity highly rated fixed income securities that constitute 80% to 100% of the NAV. Additional protection: The fund is allowed to invest in derivatives to a limited extent, for hedging purposes only.</td>
<td>• The NAV is computed at the end of each working day in accordance with SEBI regulations.</td>
<td>Yes</td>
</tr>
</tbody>
</table>

Table 18: Summary of Asia Capital Protected Fund Survey
X. Survey of MENA Protected Funds

1. Funds screening - Methodology
   • Globally, there is an evident lack of data as far as MENA investment funds are concerned. Compared to their western counterparts (Morningstar or LipperLeader), the fund databases – if available – are not comprehensive, as they do not mention all the protected funds existing in the markets. They also do not provide the prospectuses and annual reports for the few funds they list and no proper fund rating/ranking is given for most of the funds.
   • To bypass this obstacle, we tried to collect the funds through the internet. The list is not meant to be comprehensive. It only mentions the funds we could find. Hence, the ranking criteria could not be respected for MENA survey.
   • In this pre-selection, we emphasized on documentation availability (prospectuses, factsheets and annual reports) of the chosen funds. This helped us to focus our attention on the funds with available information. For this particular category, we provided the YTD return and the return since inception.
   • Sometimes, the funds are not domiciled in the MENA but the administrator is based in the region. Because of the limited number of capital protected funds, we decided to consider this type as well.
   • Unless otherwise stated, the data are relative to December 2011.

2. Survey’s selection

<table>
<thead>
<tr>
<th>Fund’s name</th>
<th>Documents</th>
<th>YTD Return</th>
<th>Return since inception</th>
<th>Total net assets (currency of denomination)</th>
<th>Total net assets ($ Million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bahrain</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ahli United Bank- USD money market fund</td>
<td>N/A</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Bahrain</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>GIC Gulf Bonds Fund</td>
<td>Available</td>
<td>5.43%</td>
<td>3.83%</td>
<td>155.37 M USD(^1)</td>
<td>155.37</td>
</tr>
<tr>
<td>Qatar</td>
<td>Commercial Bank of Qatar-Global Emerging Markets Fund</td>
<td>N/A</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Kuwait</td>
<td>Watani US Real Estate Income &amp; Growth Fund</td>
<td>N/A</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Kuwait</td>
<td>Gulf Bond Fund</td>
<td>N/A</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Kuwait</td>
<td>GIC KD Bonds Fund</td>
<td>N/A</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Kuwait</td>
<td>Coast Pearl Fund</td>
<td>Available</td>
<td>-9.71%</td>
<td>-22.10%</td>
<td>N/A</td>
</tr>
<tr>
<td>Kuwait</td>
<td>Markaz Capital Preservation Portfolio</td>
<td>Available</td>
<td>X</td>
<td>X</td>
<td>N/A</td>
</tr>
<tr>
<td>Cayman</td>
<td>Al Mal MENA Income Fund</td>
<td>Available</td>
<td>-1.97%</td>
<td>-0.30%</td>
<td>N/A</td>
</tr>
<tr>
<td>UAE</td>
<td>Al Mal Liquidity Fund</td>
<td>Available</td>
<td>2.57%</td>
<td>9.93%</td>
<td>N/A</td>
</tr>
<tr>
<td>UAE</td>
<td>Rasmala Hedge Fund Strategies Fund</td>
<td>N/A</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Egypt</td>
<td>CIB Hemaya Fund</td>
<td>Available</td>
<td>3.03%</td>
<td>6.11%</td>
<td>N/A</td>
</tr>
<tr>
<td>Egypt</td>
<td>Crédit Agricole Mutual fund number 4 ( Al Thiqa)</td>
<td>Available</td>
<td>N/A</td>
<td>2.01%</td>
<td>N/A</td>
</tr>
<tr>
<td>Egypt</td>
<td>Principal Bank for Development and Agricultural Credit First Fund</td>
<td>Available</td>
<td>19.59%</td>
<td>-9.72%</td>
<td>155 M EGP(^2)</td>
</tr>
</tbody>
</table>

\(^1\) Source: Bloomberg, data are relative to 31\(^{st}\) March 2012: [http://www.bloomberg.com/quote/GICBOND:KK](http://www.bloomberg.com/quote/GICBOND:KK)
<table>
<thead>
<tr>
<th>Country</th>
<th>Fund Name</th>
<th>YTD Return</th>
<th>5 Year Return</th>
<th>Net Asset</th>
<th>YTD Net Asset</th>
</tr>
</thead>
<tbody>
<tr>
<td>Egypt</td>
<td>Principal Bank for Development and Agricultural Credit First Fund</td>
<td>N/A</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Egypt</td>
<td>Banque Misr Accumulative Mutual Fund</td>
<td>N/A</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Egypt</td>
<td>Arab Bank Egypt- Money Market Fund</td>
<td>N/A</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Egypt</td>
<td>HSBC Money Maket Fund</td>
<td>N/A</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Egypt</td>
<td>Al Watany bank of Egypt Mutual Fund</td>
<td>0.49%</td>
<td>122.98%</td>
<td>100 M EGP¹</td>
<td>16.57</td>
</tr>
<tr>
<td>Tunisia</td>
<td>Axis Capital Protégé</td>
<td>Available</td>
<td>2.93%</td>
<td>18.54%</td>
<td>16.0 M TND²</td>
</tr>
<tr>
<td>Tunisia</td>
<td>FCP FINA 60</td>
<td>Available</td>
<td>-1.21%</td>
<td>21.40%</td>
<td>N/A</td>
</tr>
<tr>
<td>Tunisia</td>
<td>FCP Sécurité</td>
<td>Available</td>
<td>X</td>
<td>X</td>
<td>N/A</td>
</tr>
</tbody>
</table>

N/A means that the documentation is not available. Hence it is impossible to get the rest of the information like the YTD return: that is what “X” refers to.

Table 19: Pre-selection of MENA Capital Protected Funds

3. Final selection

- Protected funds, whose documentations are available, are short listed for the survey based on their performance (The YTD and the Return since inception).
- The number of funds to be studied depends on the financial activity of the country as well as on the funds’ performance.
- **Bahrain**: The sole fund whose documentation is available is the GIC Gulf Bonds Fund. Besides, the GCC’s oldest and largest fixed income fund showed a consistent performance, either in terms of YTD or return since inception.
- **Kuwait**: We included Markaz Capital. Though it is newly launched, the equity fund where the capital protected fund invests was the recipient of many awards, namely Lipper Reuters awards in 2007 & 2010 (for 3 years and 5 years performance).
- **UAE**: Only Al Mal Liquidity Fund was short listed because of the positive performance.
- **Egypt**: CIB Hemaya Fund has the best performance, followed by Crédit Agricole Mutual fund number 4 - Al Thiqa.
- **Tunisia**: Though the three funds show satisfactory results, only “Axis Capital Protégé” is included in the survey, due to the relatively small financial activity in Tunisia compared to the other countries.

¹ Total net assets on the 1st July 2010, Source: [http://english.mubasher.info/portal/CASE/getMutualFundOverView.html?mutualFundId=258&goToHomePageParam=true](http://english.mubasher.info/portal/CASE/getMutualFundOverView.html?mutualFundId=258&goToHomePageParam=true)
A value of "0" means that the information was not available at the time of data collection.

Figure 13: MENA final selected capital protected funds aggregation

Table 20: Final selection of MENA Capital Protected Funds

<table>
<thead>
<tr>
<th>Fund's name</th>
<th>YTD Return</th>
<th>Return since inception</th>
<th>Total net assets</th>
<th>Type of assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bahrain GIC Gulf Bonds Fund</td>
<td>5.43%</td>
<td>3.83%</td>
<td>155.37 M USD</td>
<td>Bond</td>
</tr>
<tr>
<td>Kuwait Markaz Capital Preservation Portfolio</td>
<td>X</td>
<td>X</td>
<td>N/A</td>
<td>Mixed assets</td>
</tr>
<tr>
<td>UAE Al Mal Liquidity Fund</td>
<td>2.57%</td>
<td>9.93%</td>
<td>N/A</td>
<td>Bond</td>
</tr>
<tr>
<td>Egypt Commercial International Bank Fund IV (Hemaya)</td>
<td>3.03%</td>
<td>6.11%</td>
<td>N/A</td>
<td>Mixed assets</td>
</tr>
<tr>
<td>Egypt Crédit Agricole Mutual fund number 4 (Al Thiqa)</td>
<td>N/A</td>
<td>2.01%</td>
<td>N/A</td>
<td>Mixed assets</td>
</tr>
<tr>
<td>Tunisia Axis Capital Protégé</td>
<td>2.93%</td>
<td>18.54%</td>
<td>16.0 M TND</td>
<td>Mixed assets</td>
</tr>
</tbody>
</table>
4. Survey results

a. The approach

- For each fund, we tried to collect the respective prospectus and the latest annual report, if available.
- In the prospectus, we looked for information related to: type of fund, type of assets, protection strategy and fund valuation.
- For the funds where the type of assets was not mentioned, we scrutinized the respective prospectus and some websites\(^1\) to confirm their asset allocation.
- Normally, the redemption/subscription frequency is deduced from the annual report. Unfortunately for these particular funds, either the annual reports consolidate the results of the respective mother companies and hence do not disclose the details of the funds; or the annual report is simply not available online by any means.
- Pertaining to secondary trading, we browse the respective stock exchange markets and check whether the ISIN code of the fund or its name is listed in the market. If so, we consider that the fund’s units are traded in the secondary market, otherwise no.

\(^1\) www.zawya.com or www.gulfbase.com
b. Funds’ profiles

**GIC Gulf Bonds Fund**

- **Investment strategy**

  **Investment scope:**
  - The fund is a total return bond portfolio that primarily invests in debt issues of entities in GCC countries. Debt issues of entities incorporated outside GCC countries may be included on opportunistic basis.
  - The Investment Manager will invest at least 75% of the Fund in the GCC Countries, namely The Kingdom of Bahrain, State of Kuwait, Sultanate of Oman, State of Qatar, The Kingdom of Saudi Arabia and the United Arab Emirates. The Investment Manager will invest the rest outside the G.C.C. (including in OECD Countries and Emerging Markets).

  **Type of assets:**
  All sectors of the bond market will be utilized to add value including:
  - Debt instruments issued by governments and government agencies;
  - Debt instruments issued by corporate and financial institutions;
  - Asset backed securities;
  - Shari’ah compliant debt and money market instruments;
  - Conventional money market instruments;
  - The fund may also invest in third party funds or structured instruments and vehicles.

  **Protection strategy:**
  The protection is based on the nature of the assets held by the fund. Furthermore, there are some restrictions on the type of bonds the fund may invest in:
  - Up to 100% of the NAV could be invested in government and sovereign bonds.
  - A maximum of 60% of the NAV could be invested in corporate and financial institutions debt instruments.
  - The Fund may invest in third party investment funds or other vehicles up to 40% of the NAV.

  **Additional protection:**
  - The Fund may invest in derivative transactions related to interest rates or foreign exchange for hedging purposes.
  - To limit the currency risk, the fund imposes currency restrictions on its investments. These should be, preferably, tradable and valued in the local currency, currency of GCC Countries or other main tradable currencies.

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1 GIC Gulf Bond Fund Newsletter December 2011 and Prospectus of GIC Gulf Bond Fund edited on 18th September 2011.
### Profile summary

<table>
<thead>
<tr>
<th>Fund name</th>
<th>Type of asset</th>
<th>Type of Fund</th>
<th>Subscription/Redemption Frequency</th>
<th>Protection technique</th>
<th>Valuation Method</th>
<th>Secondary trading</th>
</tr>
</thead>
<tbody>
<tr>
<td>GIC Gulf Bonds Fund</td>
<td>Bonds: Safe assets: Government / corporate debt securities and money market instruments.</td>
<td>Open-ended</td>
<td>N/A</td>
<td>a) Protection is ensured by investing in relatively safe assets. b) Derivatives are further used to hedge interest rate risk and currency risk.</td>
<td>• The NAV per Unit will be calculated by the Administrator in accordance with generally accepted international accounting standards. • Monthly valuation: The first day of each month provided it is a Business Day</td>
<td>The Mother Company is listed in Bahrain Stock Exchange, but the fund was not found.1</td>
</tr>
</tbody>
</table>

Markaz Capital Preservation Portfolio

➢ Investment strategy

The need for Markaz Capital Preservation Portfolio:

- **Market volatility:** Over the last few years, the Kuwait Stock Exchange has underperformed against other emerging markets and has demonstrated a high level of volatility.
- **Lack of liquidity:** In 2009, liquidity in the Kuwait Stock Exchange dried up drastically, with a total value traded of only USD 75 billion, having previously peaked at over USD 130 billion in 2007 and 2008.
- **Rising Speculation:** Because of the lower liquidity, speculation at the Kuwait Stock Exchange has been very high since 2009, leading to high levels of volatility in the Kuwait market.
- **Low level of participation by institutional investors:** This stood at only 4% in 2009, hence contributing to rising speculation.

Protection strategy: CPPI

- By means of the CPPI Model, Markaz is attempting to limit any downside to 10% of the original investment, while offering an opportunity to benefit from the upside through participation in the Kuwaiti equity market.
  - **Type of assets**
- Equity Benchmark: The fund invests in Blue Chip Equity Stocks listed on the Kuwait stock exchange and was the best performing fund in Kuwait in 2009: Markaz Fund for Excellent Yields “Mumtaz”.
- Safe assets: Fixed Deposits with local banks.
  - **CPPI Parameters:**
- The floor= 90: The value of net assets of the fund is not expected to fall below 90% of the initial value.
- Multiplier= 3.5: Higher multiplier will enable the manager to allocate higher levels to equity during rising markets and vice versa.

➢ Financial institution: The fund is managed by Kuwait Financial Centre, S.A.K. ‘Markaz’ an asset management and investment banking institution.

➢ Inception date: 1st November 2010.

➢ Investment Objective: To seek Without any promises or any guarantee by the Portfolio Manager, the Portfolio attempts on a best efforts basis to achieve capital appreciation over a medium- to long-term period (based on an investment horizon of 2 to 3 years at the minimum) by investing in “Mumtaz” (Markaz equity fund for high yields) with a goal to preserve 90% of the capital invested at inception.

➢ Type of assets: Mixed assets.
### Profile summary

<table>
<thead>
<tr>
<th>Fund name</th>
<th>Type of asset</th>
<th>Type of fund</th>
<th>Subscription/Redemption Frequency</th>
<th>Protection technique</th>
<th>Valuation Method</th>
<th>Secondary trading</th>
</tr>
</thead>
<tbody>
<tr>
<td>Markaz Capital Preservation Portfolio</td>
<td>Mixed assets: Risky asset: Investing in “Mumtaz” equity. Safe assets: Cash deposits with local banks.</td>
<td>Open-ended</td>
<td>N/A</td>
<td>CPPI: with a floor of 90 and a multiplier of 3.5</td>
<td>N/A</td>
<td>The mother company is listed on the Kuwait Stock Exchange but the Fund was not found.</td>
</tr>
</tbody>
</table>

### Notes

- The information presented in the annual report of 2010 is in the form of consolidated results. The financial performance of the respective funds is not available online.
- We could not provide the valuation method since we were unable to find the fund prospectus. Most of the information presented above has been gathered from the fund brochure and the official website.

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**Al Mal Liquidity Fund**

- **Investment strategy**
  The Fund is very recent. It is still in the development stage with no operating history and is therefore difficult to evaluate. The success of the Fund and its ability to generate profits and protect capital will depend on the management and the financial and managerial expertise of the Fund Manager.

- **Protection strategy:**
  - The protection is based on the nature of the assets held by the fund: more than 80% of the portfolio is invested in short term money market and deposit instruments.

- **Further protection:**
  - The Fund Manager may, at his absolute discretion, invest in derivatives to manage the interest rate risk and others for efficient portfolio management but may not do so solely for speculative purposes\(^1\).

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**Financial institution:**
- The fund is managed by **Al Mal Capital PSC**; an institution specialized in investment banking, asset management and brokerage.

**Inception date:** 5\(^{th}\) April 2009.

**Investment Objective:** Al Mal Liquidity Fund is an open-ended fund registered in the United Arab Emirates. The aim of the Fund is to provide investors with capital preservation and current income through regular payment of dividends. The Fund invests in UAE and GCC short-term money market and deposit instruments.

**Type of assets:** Bonds.

---

\(^1\) Sources:
### Profile summary

<table>
<thead>
<tr>
<th>Fund name</th>
<th>Type of asset</th>
<th>Type of fund</th>
<th>Subscription/Redemption Frequency</th>
<th>Protection technique</th>
<th>Valuation Method</th>
<th>Secondary trading</th>
</tr>
</thead>
<tbody>
<tr>
<td>Al Mal Liquidity Fund</td>
<td>Bonds: Safe assets: At least 80% of the portfolio is invested in short term money market instruments and deposits.</td>
<td>Open-ended</td>
<td>N/A</td>
<td><strong>Investing in safe assets:</strong>&lt;br&gt;a) Protection is ensured by investing in relatively safe assets.&lt;br&gt;b) Derivatives are further used to hedge interest rate risk and currency risk.</td>
<td>• The NAV of the fund is calculated based on forward pricing.&lt;br&gt;• More specifically, the NAV if the Fund is equal to the sum of all cash, cash equivalents, the fair value of all other assets of the Fund, less all liabilities of the Fund, including accrued liabilities, irrespective of whether such liabilities may in fact never be paid.</td>
<td>The fund is neither listed on the Dubai Financial Market, nor on the Abu Dhabi Securities Exchange¹</td>
</tr>
</tbody>
</table>

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Commercial International Bank Fund IV
(Hemaya)

➤ Investment strategy
Hemaya Fund is the first in the Egyptian market with full Capital Protection, with a short tenor of 1 year, and monthly subscriptions and redemptions.

Type of assets:
• Hemaya provides diversification through investing in the following financial instruments:
  o Fixed income securities: T-Bills, T-Bonds, Deposits, Bond Repos.
  o Investments in other funds: mutual funds, money market and fixed income funds. Up to 20% of the NAV could be invested in such assets.
  o Equity: Up to 25% of the fund could be invested in local equity.1

Protection strategy: A variation of CPPI
• The fund invests in both fixed income securities and in equities. To protect the capital, the fixed income portion is used as a hedging mechanism to protect against the equity portion.
• The bulk of the assets are invested in liquid fixed income instruments while equity component should not exceed 25% of the portfolio.
• If the value of the equity drops by 20%, the whole portfolio will be invested in fixed income instruments.
• Additionally, of the return on equity component will be invested in fixed income securities, in order to maintain the 25% threshold.2

➤ Financial institution: The fund is managed by CI Asset Management.
➤ Inception date: 1st August 2010
➤ Investment Objective: The fund aims to attract investors in both fixed income and equity instruments. The fund enables both retail and corporate investors to benefit from the upside potential in the capital markets without being exposed to capital loss by protecting the capital invested.
➤ Type of assets: Mixed assets.

1 Website: http://www.cibeg.com/en/ConsumerBanking/Investments/Pages/HemayaFund.aspx
<table>
<thead>
<tr>
<th>Fund name</th>
<th>Type of asset</th>
<th>Type of fund</th>
<th>Subscription/Redemption Frequency</th>
<th>Protection technique</th>
<th>Valuation Method</th>
<th>Secondary trading</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commercial International Bank Fund IV (Hemaya)</td>
<td>Mixed assets: Safe assets: The majority of the fund is invested in T-bills, T-bonds, bond repos and deposit. Risky assets: Local equity (up to 25%).</td>
<td>Open-ended</td>
<td>N/A</td>
<td>A variation of CPPI: a) Fixed income instruments are used as hedge against equity position. b) The fund limits the risk by limiting the exposure to equity (up to 25% of the NAV) c) The portfolio composition varies according to market conditions.</td>
<td>• The NAV of the fund is calculated based on forward pricing.</td>
<td>No</td>
</tr>
</tbody>
</table>
Crédit Agricole Mutual fund number 4 (Al Thiqa)

- **Investment strategy**
  - The fund’s investments are restricted to the local Egyptian market and are undertaken in local currency.
  - The fund diversifies its investments between high-risk instruments such as equities and low risk instruments, as well as diversifying across different economic sectors and the use of prudent instrument selection for all instruments.

- **Protection strategy: A variation of CPPI**
  - The fund is of moderate risk as the investments are balancing between stock and fixed income; depending on market conditions.
  - The fund manager can invest according to the following main criteria:
    - Stocks range between 35% and 65% of the fund’s Net Asset Value (NAV).
    - Fixed income ranges between 35% up to a maximum of 65% of the NAV. This income includes Time deposits, call accounts, Egyptian Treasury Bills/Bonds, Corporate bonds.¹

- **Financial institution:** The fund custodian is Crédit Agricole Egypt.
- **Inception date:** 8th August 2011.
- **Investment Objective:** (i) Capital preservation (ii) Achieve moderate growth with moderate risk by balancing its investments between stock and fixed income products (iii) Periodic income and prizes.
- **Type of assets:** Mixed assets.

¹ Sources: http://www.ca-egypt.com/PB/InvestP/CAE-MF4_Prospectus-AR.pdf
Website: http://www.ca-egypt.com/PB/InvestP/CAEMFno4.html
### Profile summary

<table>
<thead>
<tr>
<th>Fund name</th>
<th>Type of asset</th>
<th>Type of fund</th>
<th>Subscription/Redemption Frequency</th>
<th>Protection technique</th>
<th>Valuation Method</th>
<th>Secondary trading</th>
</tr>
</thead>
</table>
| Crédit Agricole Mutual fund number 4 (Al Thiqa)    | **Mixed Asset:** T-Bills, T-Bonds, corporate bonds, deposits... **Risky asset:** Local Equity. | Open-ended   | N/A                               | A variation of CPPI:  
a) The fund invests in both equity and fixed income.  
b) The portion of equity and bonds components depends on market conditions (both should vary between 35% and 65%) | N/A              | No               |
Axis Capital Protégé

➢ Investment strategy

Protection strategy:
- The portfolio is constituted of mixed assets: medium to long term fixed income securities (T-bills, Bonds, deposits) and stocks traded in the Tunisian market.
- The capital protection is ensured by investing the bulk of the assets in high quality fixed income investments.
- The fund invests in medium to long term fixed income assets while it limits its exposure to equity:
  - About 45% of total assets is allocated to public and private bonds.
  - About 20% is held in cash or cash equivalent.
  - About 5% is invested in other in mutual funds.
  - About 30% is allocated to high yield local equity.1

➢ Financial institution: The fund is managed by Axis Capital Gestion.
➢ Inception date: February 2004.
➢ Investment Objective: To achieve medium to long term capital appreciation while preserving capital.
➢ Type of assets: Mixed assets.

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1 Sources:
Prospectus: http://ae.zawya.com/researchreports/p_2006_10_19_10_26_01/20100409_p_2006_10_19_10_26_01_094918.pdf
### Profile summary

<table>
<thead>
<tr>
<th>Fund name</th>
<th>Type of asset</th>
<th>Subscription/Redemption Frequency</th>
<th>Protection technique</th>
<th>Valuation Method</th>
<th>Secondary trading</th>
</tr>
</thead>
</table>
| Axis Capital Protégé | **Mixed assets:** Public & private debt instrument, cash and cash equivalent. | Open-ended                         | Investing in safe assets:  
a) The fund invests the majority of the portfolio in high quality safe assets.  
b) Returns are generated by high yield securities which is limited to 40% of total assets. | • The NAV of the fund based on forward pricing and the valuation of the assets and liabilities are subject to local accounting rules.  
• The NAV is calculated on a weekly basis and published each Friday. | No                |

- **Fund name**: Axis Capital Protégé  
- **Type of asset**: Mixed assets  
  - **Risky asset**: Less than 40% is held in local equities.  
  - **Safe assets**: Public & private debt instrument, cash and cash equivalent.
### Summary of MENA protected funds survey

<table>
<thead>
<tr>
<th>Fund name</th>
<th>Type of asset</th>
<th>Type of fund</th>
<th>Subscription/Redemption Frequency</th>
<th>Protection technique</th>
<th>Valuation Method</th>
<th>Secondary trading</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Bahrain</strong></td>
<td><strong>GIC Gulf Bonds Fund</strong></td>
<td>Bonds:</td>
<td>Open-ended</td>
<td>Investing in safe assets: a) Protection is ensured by investing in relatively safe assets. b) Derivatives are further used to hedge interest rate risk and currency risk.</td>
<td>• The NAV per Unit will be calculated by the Administrator in accordance with generally accepted international accounting standards. • Monthly valuation: The first day of each month provided it is a Business Day</td>
<td>The Mother Company is listed in Bahrain Stock Exchange, but the fund was not found.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Safe assets:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Government / corporate debt securities and money market instruments.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Kuwait</strong></td>
<td><strong>Markaz Capital Preservation Portfolio</strong></td>
<td>Mixed assets:</td>
<td>Open-ended</td>
<td>CPPI: with a floor of 90 and a multiplier of 3.5</td>
<td>N/A</td>
<td>The mother company is listed on the Kuwait Stock Exchange but the Fund was not found.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Risky asset:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Investing in “Mumtaz” equity.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Safe assets:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Cash deposits with local banks.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>UAE</strong></td>
<td><strong>Al Mal Liquidity Fund</strong></td>
<td>Bonds:</td>
<td>Open-ended</td>
<td>Investing in safe assets: a) Protection is ensured by investing in relatively safe assets. b) Derivatives are further used to hedge interest rate risk and currency risk.</td>
<td>• The NAV of the fund is calculated based on forward pricing. • More specifically, the NAV if the Fund is equal to the sum of all cash, cash equivalents, the fair value of all other assets of the Fund, less all liabilities of the Fund, including accrued liabilities, irrespective of whether such liabilities may in fact never be paid.</td>
<td>The fund is neither listed on the Dubai Financial Market, nor on the Abu Dhabi Securities Exchange.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Safe assets:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>At least 80% of the portfolio is invested in short term money market instruments and deposits.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Country</td>
<td>Fund Name</td>
<td>Mixed assets:</td>
<td>Safe assets:</td>
<td>Risky assets:</td>
<td>Structure</td>
<td>Investment Strategy</td>
</tr>
<tr>
<td>---------</td>
<td>------------</td>
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<td>--------------</td>
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<td>-----------</td>
<td>---------------------</td>
</tr>
<tr>
<td>Egypt</td>
<td>Egyptian Commercial International Bank Fund IV (Hemaya)</td>
<td><strong>Mixed assets:</strong></td>
<td>The majority of the fund is invested in T-bills, T-bonds, bond repos and deposit.</td>
<td><strong>Risky assets:</strong> Local equity (up to 25%)</td>
<td>Open-ended</td>
<td>A variation of CPPI: 1- Fixed income instruments are used as hedge against equity position. 2- The fund limits the risk by limiting the exposure to equity (up to 25% of the NAV) 3- The portfolio composition varies according to market conditions.</td>
</tr>
<tr>
<td>Egypt</td>
<td>Crédit Agricole Mutual fund number 4 (Al Thiqa)</td>
<td><strong>Mixed Asset:</strong></td>
<td>T-Bills, T-Bonds, corporate bonds, deposits...</td>
<td><strong>Risky asset:</strong> Local Equity.</td>
<td>Open-ended</td>
<td>A variation of CPPI: 1- The fund invests in both equity and fixed income. 2- The portion of equity and bonds components depends on market conditions (both should vary between 35% and 65%)</td>
</tr>
<tr>
<td>Tunisia</td>
<td>Axis Capital Protégé</td>
<td><strong>Mixed assets:</strong></td>
<td>Less than 40% of assets is held in local equities.</td>
<td><strong>Safe assets:</strong> Public &amp; private debt instrument, cash and cash equivalent.</td>
<td>Open-ended</td>
<td>Investing in safe assets: a) The fund invests the majority of the portfolio in high quality safe assets. b) Returns are generated by high yield securities, which is limited to 40% of total assets.</td>
</tr>
</tbody>
</table>
XI. Survey of Islamic Protected Funds

1. Funds screening - Methodology
   - While examining Islamic Capital Protected funds, we faced a serious lack of data, especially for those located in the MENA Region.
   - More often than not, proper fund databases are not available, and if they are, the “Capital Protection” category is not provided as a filter option. Therefore, we had to look for the fund objective within the factsheet of each Islamic fund to check whether they propose a “Capital Protection Feature” or not. Furthermore, most of the fund databases are not comprehensive, as they do not mention all the Islamic protected funds existing in the markets. They might not be updated as well; the fund could be already liquidated and still listed as active. Besides, they do not provide the annual reports and prospectuses and no proper fund rating/ranking is provided.
   - Generally, we collected Islamic Capital Protected Funds’ data from the internet. The list is not meant to be comprehensive. It only mentions the funds that we could find. The exception was Saudi Arabia, where the Stock Exchange website “Tadawul” displays the listed funds by showing the Shari’ah Compliance and Capital Protection features as well as YTD rate of return, among others.¹
   - For this particular survey, we considered two types of funds: (1) the funds that clearly claim themselves as “Capital Protected” and where the “Capital Protection” is a primary objective and (2) the funds that state “Capital Protection” as one of the objectives in addition to other targets that might be more prevalent. For instance, we considered income funds or money market funds that claim to seek capital preservation. This is particularly the case of some countries where we could not collect enough “pure” capital protected funds and where we tried to complement it with the two other types.
   - In this pre-selection, we emphasized on documentation availability (prospectuses, factsheets and annual reports) of the chosen funds. This helped us to focus our attention on funds with available information. For this particular category, we provided the YTD rate of return and the type of assets.

2. Survey’s selection

<table>
<thead>
<tr>
<th>Fund’s name</th>
<th>Documents*</th>
<th>YTD</th>
<th>Type of assets</th>
<th>Total net assets (Currency of denomination)</th>
<th>Total net assets ($ M)</th>
</tr>
</thead>
<tbody>
<tr>
<td>UAE Dubai Islamic Bank-Al Islami Savings Scheme</td>
<td>N/A</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>UAE Dubai Islamic Bank-Al Islami Capital Protected CROCI Note</td>
<td>N/A</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>UAE Dubai Islamic Bank-3 Year Capital Protected CLIP Note</td>
<td>N/A</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>UAE Dubai Islamic Bank-3 Year Capital Protected DFM Note</td>
<td>N/A</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>UAE Dubai Islamic Bank-3 Year Capital Protected Global Diversified Note</td>
<td>N/A</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>UAE Dubai Islamic Bank-3 Year Capital Protected Global REIT Note</td>
<td>N/A</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>UAE Dubai Islamic Bank-4 Year Capital Protected Water Note</td>
<td>N/A</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>UAE Dubai Islamic Fund-5 Year Capital Protected Notes linked to DB-GSAM Hedge Fund</td>
<td>N/A</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
</tbody>
</table>

¹ http://www.tadawul.com.sa
<table>
<thead>
<tr>
<th>Country</th>
<th>Fund Name</th>
<th>Available</th>
<th>Category</th>
<th>Total Assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>UAE</td>
<td>DIB-5 Year protection linked to the DWS Invest New Resources Fund</td>
<td>N/A</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>UAE</td>
<td>DIB-4-Year Note linked to DB Commodity Harvest Index</td>
<td>N/A</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>UAE</td>
<td>Dubai Islamic Bank- 3 Year 50/50 Upside Note</td>
<td>N/A</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Kuwait</td>
<td>Global Islamic Fund</td>
<td>Available</td>
<td>-0.16% Fixed income</td>
<td>0.5 M KD^2</td>
</tr>
<tr>
<td>Kuwait</td>
<td>NBK-Islamic Ijarah fund XI</td>
<td>Available</td>
<td>0.50% Ijarah assets</td>
<td>N/A</td>
</tr>
<tr>
<td>Kuwait</td>
<td>NBK-Islamic Ijarah fund VIII</td>
<td>Available</td>
<td>7.00% Ijarah assets</td>
<td>N/A</td>
</tr>
<tr>
<td>Kuwait</td>
<td>NBK-Islamic Ijarah fund X</td>
<td>Available</td>
<td>0.50% Ijarah assets</td>
<td>N/A</td>
</tr>
<tr>
<td>Kuwait</td>
<td>NBK-Thahabi Ijarah fund IX</td>
<td>Available</td>
<td>5.96% Ijarah assets</td>
<td>N/A</td>
</tr>
<tr>
<td>Kuwait</td>
<td>NBK-Thahabi Ijarah fund III</td>
<td>Available</td>
<td>6.42% Ijarah assets</td>
<td>N/A</td>
</tr>
<tr>
<td>Kuwait</td>
<td>NBK-Thahabi Ijarah fund V</td>
<td>Available</td>
<td>0.58% Ijarah assets</td>
<td>N/A</td>
</tr>
<tr>
<td>Kuwait</td>
<td>NBK-Thahabi Ijarah fund VI</td>
<td>Available</td>
<td>0.54% Ijarah assets</td>
<td>N/A</td>
</tr>
<tr>
<td>Kuwait</td>
<td>NBK-Thahabi Ijarah fund VII</td>
<td>Available</td>
<td>X</td>
<td>Ijarah assets</td>
</tr>
<tr>
<td>Kuwait</td>
<td>NBK-Islamic KD Ijarah Fund V</td>
<td>Available</td>
<td>0.44% Ijarah assets</td>
<td>N/A</td>
</tr>
<tr>
<td>Kuwait</td>
<td>NBK-Islamic KD Ijarah Fund I</td>
<td>Available</td>
<td>0.54% Ijarah assets</td>
<td>N/A</td>
</tr>
<tr>
<td>Kuwait</td>
<td>NBK-Islamic KD Ijarah Fund II</td>
<td>Available</td>
<td>5.73% Ijarah assets</td>
<td>N/A</td>
</tr>
<tr>
<td>Kuwait</td>
<td>NBK-Islamic KD Ijarah Fund III</td>
<td>Available</td>
<td>5.50% Ijarah assets</td>
<td>N/A</td>
</tr>
<tr>
<td>Kuwait</td>
<td>NBK-Islamic KD Ijarah Fund IV</td>
<td>Available</td>
<td>0.50% Ijarah assets</td>
<td>N/A</td>
</tr>
<tr>
<td>Pakistan</td>
<td>Atlas Islamic Income Fund</td>
<td>Available</td>
<td>1.20% Mixed Assets</td>
<td>447 M PKR^4</td>
</tr>
<tr>
<td>Pakistan</td>
<td>HBL Islamic Money Market Fund</td>
<td>Available</td>
<td>X</td>
<td>i-Money Market</td>
</tr>
<tr>
<td>Pakistan</td>
<td>Meezan Capital Protected Fund - II</td>
<td>Available</td>
<td>3.93% Mixed assets</td>
<td>428 M PKR</td>
</tr>
<tr>
<td>Pakistan</td>
<td>Meezan Islamic Income Fund</td>
<td>Available</td>
<td>1.73% Mixed assets</td>
<td>956 M PKR</td>
</tr>
<tr>
<td>Malaysia</td>
<td>CIMB-I Comm Structured Fund 2</td>
<td>Available</td>
<td>0.29% Structured Products</td>
<td>47 M USD^6</td>
</tr>
<tr>
<td>Malaysia</td>
<td>AMB Dana Aqeel-Capital Protected Fund</td>
<td>Available</td>
<td>0.61% Mixed assets-Cautious</td>
<td>19.84 M USD</td>
</tr>
<tr>
<td>Malaysia</td>
<td>ASM Syariah Capital Protected Sector Linked Fund</td>
<td>Available</td>
<td>X</td>
<td>Mixed assets-Cautious</td>
</tr>
<tr>
<td>Malaysia</td>
<td>AmAl-Amin</td>
<td>Available</td>
<td>X</td>
<td>57.30 M USD</td>
</tr>
<tr>
<td>Malaysia</td>
<td>AMB Dana Nabeel</td>
<td>Available</td>
<td>0.39% X</td>
<td>52.07 M USD</td>
</tr>
<tr>
<td>KSA</td>
<td>AlManarah Conservative Growth Fund</td>
<td>Available</td>
<td>2.06% Mixed assets</td>
<td>136 M USD^2</td>
</tr>
<tr>
<td>KSA</td>
<td>HSBC Amanah Multi-Assets Defensive Portfolio</td>
<td>Available</td>
<td>1.50% Mixed assets-Cautious</td>
<td>279 M SAR</td>
</tr>
<tr>
<td>KSA</td>
<td>International Trade Finance Fund ( Sunbullah USD )</td>
<td>Available</td>
<td>1.50% Trade finance</td>
<td>121 M USD</td>
</tr>
<tr>
<td>KSA</td>
<td>Alawwal Saudi Riyal Murabaha</td>
<td>Available</td>
<td>1.50% Trade finance</td>
<td>119 M SAR</td>
</tr>
<tr>
<td>KSA</td>
<td>Al Yusr Morabaha &amp; Sukuk Fund</td>
<td>Available</td>
<td>1.42% i-Money Market</td>
<td>55 M SAR</td>
</tr>
<tr>
<td>KSA</td>
<td>International Trade Finance Fund ( Sunbullah SAR )</td>
<td>Available</td>
<td>1.34% Trade finance</td>
<td>9.91 M SAR</td>
</tr>
<tr>
<td>KSA</td>
<td>International Trade Finance Fund (Sunbullah EURO)</td>
<td>Available</td>
<td>1.21% Trade finance</td>
<td>17.31 M SAR</td>
</tr>
<tr>
<td>KSA</td>
<td>Shuua Murabaha Fund</td>
<td>Available</td>
<td>1.06% Trade finance</td>
<td>61.95 M SAR</td>
</tr>
</tbody>
</table>

^1 Data of January 2012.  
^2 Data of February 2012, source [http://www.globalinv.net/PDFs/funds/Islamic%20Fund.pdf](http://www.globalinv.net/PDFs/funds/Islamic%20Fund.pdf)  
^3 Data of February 2012 except for “Faysal Islamic Savings Growth Fund” which is that of December 2011.  
For the remaining Pakistani Islamic Protected Funds, Data related to Total Net Assets is that of February 2012, source [http://www.halaltamweel.com](http://www.halaltamweel.com)  
^5 Data of February 2012  
^6 For the Malaysian Islamic Protected Funds, Data related to Total Net Assets is that of March 2012, source [http://my.morningstar.com/](http://my.morningstar.com/)  
^7 Data of February 2012
Table 22: Pre-selection of Islamic Capital Protected Funds

<table>
<thead>
<tr>
<th>Country</th>
<th>Name of Fund</th>
<th>Availability</th>
<th>Sector</th>
<th>YTD Rate of Return</th>
<th>ski</th>
<th>Total Assets (SAR)</th>
<th>SkD</th>
</tr>
</thead>
<tbody>
<tr>
<td>KSA</td>
<td>Al-Murabih SAR Murabaha Fund</td>
<td>Available</td>
<td>Trade</td>
<td>1.01%</td>
<td>85.87 M</td>
<td>22.9</td>
<td></td>
</tr>
<tr>
<td>KSA</td>
<td>AlWatheq Enhanced Murabaha</td>
<td>N/A</td>
<td>Trade</td>
<td>0.96%</td>
<td>N/A</td>
<td>N/A</td>
<td></td>
</tr>
<tr>
<td>KSA</td>
<td>Al Yusr Aman Multi Asset Fund</td>
<td>N/A</td>
<td>Mixed assets</td>
<td>0.93%</td>
<td>15.42 M</td>
<td>4.11</td>
<td></td>
</tr>
<tr>
<td>KSA</td>
<td>Al Hadi Sharia Compliant Fund</td>
<td>Available</td>
<td>Trade</td>
<td>0.89%</td>
<td>24.19 M</td>
<td>6.45</td>
<td></td>
</tr>
<tr>
<td>KSA</td>
<td>Commodity Trading Fund SAR</td>
<td>Available</td>
<td>Trade</td>
<td>0.68%</td>
<td>2,002 M</td>
<td>533.87</td>
<td></td>
</tr>
<tr>
<td>KSA</td>
<td>Al Yusr SAR Morabaha Fund</td>
<td>N/A</td>
<td>Trade</td>
<td>0.65%</td>
<td>0.604 M</td>
<td>0.16</td>
<td></td>
</tr>
<tr>
<td>KSA</td>
<td>Al-Badr Murabaha Fund - US Dollars</td>
<td>Available</td>
<td>Trade</td>
<td>0.57%</td>
<td>788.2 M</td>
<td>210.19</td>
<td></td>
</tr>
<tr>
<td>KSA</td>
<td>Commodity Trading Fund - USD</td>
<td>Available</td>
<td>Trade</td>
<td>0.36%</td>
<td>39.31 M</td>
<td>9.66</td>
<td></td>
</tr>
<tr>
<td>KSA</td>
<td>Al Ahli Sadaqqat Fund</td>
<td>Available</td>
<td>i-Money Market</td>
<td>0.26%</td>
<td>36.23 M</td>
<td>9.66</td>
<td></td>
</tr>
<tr>
<td>KSA</td>
<td>Alinma Saudi Riyal Liquidity Fund</td>
<td>Available</td>
<td>Trade</td>
<td>0.25%</td>
<td>131.3 M</td>
<td>35.01</td>
<td></td>
</tr>
<tr>
<td>KSA</td>
<td>ALDURRAH Liquidity Fund (Saudi Riyal)</td>
<td>Available</td>
<td>i-Money Market</td>
<td>0.21%</td>
<td>16.76 M</td>
<td>4.47</td>
<td></td>
</tr>
<tr>
<td>KSA</td>
<td>Investor Saudi Riyal Murabaha</td>
<td>Available</td>
<td>Trade</td>
<td>0.18%</td>
<td>58.19 M</td>
<td>15.52</td>
<td></td>
</tr>
<tr>
<td>KSA</td>
<td>The Investor Real Estate Fund For Multiple Projects</td>
<td>Available</td>
<td>Real Estate</td>
<td>0.00%</td>
<td>80.05 M</td>
<td>21.35</td>
<td></td>
</tr>
<tr>
<td>KSA</td>
<td>Al Rajhi GCC Shares Capital Protected Fund (90%)</td>
<td>Available</td>
<td>Equity</td>
<td>-0.99%</td>
<td>24.52 M</td>
<td>6.54</td>
<td></td>
</tr>
<tr>
<td>KSA</td>
<td>Al Rajhi Local Shares Capital Protected Fund (90%)</td>
<td>Available</td>
<td>Equity</td>
<td>-3.73%</td>
<td>22.85 M</td>
<td>6.09</td>
<td></td>
</tr>
</tbody>
</table>

*:N/A means that the documentation is not available. Hence, it is impossible to get the rest of the information like the YTD return: that is what “X” refers to.

3. Final selection

- Islamic Capital Protected funds, whose documentations are available, will be short listed for the survey based on their performance (the YTD rate of return).
- The number of funds to be studied depends on how many protected funds have been collected per country as well as on the funds’ performance.
- **UAE**: Though we were able to list 11 Islamic Capital Protected funds, we could not find the respective prospectuses and annual reports. Therefore, we decided to exclude these funds.
- **Kuwait**: Thirteen funds belong to the National Bank of Kuwait NBK Ijarah Fund Series. While going through their respective factsheets, we noticed that they more or less follow the same investment strategy. Thus, we picked only the best performing fund, “NBK-Islamic Ijarah Fund VIII”, which is the only fund that has outperformed inflation, as an example. We short listed “Global Islamic Fund”, despite its negative YTD rate of return, in order to explore new management styles.
- **Pakistan**: In addition to its satisfactory performance, the “Meezan Capital Protected Fund – II”, we were able to establish, is the only fund that is actually categorized as “Capital protected”. The remaining funds belong to other categories (Income, or Money Market funds) but also claim to seek capital preservation. We selected the second best performing fund the “Meezan Islamic Income Fund” and the “HBL Islamic Money Market Fund” to see how capital protection was implemented in a Money Market fund.
- **Malaysia**: We only included the funds that are categorized as Capital Protected, namely: “ASM Syariah Capital Protected Sector Linked Fund”, “AMB Dana Aqeel-Capital Protected Fund” and “CIMB-I Comm Structured Fund 2”. While the remaining funds are Money

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1 Data of March 2012, source [http://english.mubasher.info/portal/TDWL/searchMutualFunds.html](http://english.mubasher.info/portal/TDWL/searchMutualFunds.html)

2 Inflation rates were obtained from the World Development Indicators & Global Development Finance database, [www.worldbank.org](http://www.worldbank.org).
Market funds with capital preservation features.

- **KSA**: We short-listed the 6 best performing capital protected funds whose documentations are available.

<table>
<thead>
<tr>
<th>Fund’s name</th>
<th>YTD</th>
<th>Type of assets</th>
<th>Total net assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kuwait Global Islamic Fund</td>
<td>-0.16%</td>
<td>Fixed income</td>
<td>0.5 M KD</td>
</tr>
<tr>
<td>Kuwait NBK-Islamic Ijarah fund VIII</td>
<td>7.00%</td>
<td>Ijarah assets</td>
<td>N/A</td>
</tr>
<tr>
<td>Pakistan Meezan Capital Protected Fund - II</td>
<td>3.93%</td>
<td>Mixed assets</td>
<td>428 M PKR</td>
</tr>
<tr>
<td>Pakistan Meezan Islamic Income Fund</td>
<td>1.73%</td>
<td>Mixed assets</td>
<td>956 M PKR</td>
</tr>
<tr>
<td>Pakistan HBL Islamic Money Market Fund</td>
<td>N/A</td>
<td>i-Money Market</td>
<td>435 M PKR</td>
</tr>
<tr>
<td>Malaysia CIMB-I Comm Structured Fund 2</td>
<td>0.29%</td>
<td>Structured Products</td>
<td>47 M USD</td>
</tr>
<tr>
<td>Malaysia AMB Dana Aqeel-Capital Protected Fund</td>
<td>0.61%</td>
<td>Mixed assets-Cautious</td>
<td>19.84 M USD</td>
</tr>
<tr>
<td>Malaysia ASM Syariah Capital Protected Sector Linked Fund</td>
<td>N/A</td>
<td>Mixed assets-Cautious</td>
<td>N/A</td>
</tr>
<tr>
<td>KSA AlManarah Conservative Growth Fund</td>
<td>2.06%</td>
<td>Mixed assets</td>
<td>136 M USD</td>
</tr>
<tr>
<td>KSA HSBC Amanah Multi-Assets Defensive Portfolio</td>
<td>1.05%</td>
<td>Mixed assets-Cautious</td>
<td>279 M SAR</td>
</tr>
<tr>
<td>KSA International Trade Finance Fund (Sunbullah USD)</td>
<td>1.05%</td>
<td>Trade finance</td>
<td>121 M USD</td>
</tr>
<tr>
<td>KSA Shuaa Murabaha Fund</td>
<td>1.06%</td>
<td>Trade finance</td>
<td>61.95 M SAR</td>
</tr>
<tr>
<td>KSA Al-Murabah SAR Murabaha Fund</td>
<td>1.01%</td>
<td>Trade finance</td>
<td>85.87 M SAR</td>
</tr>
<tr>
<td>KSA Al Hadi Sharia Compliant Fund</td>
<td>0.09%</td>
<td>Mixed assets-Cautious</td>
<td>91.64 M SAR</td>
</tr>
</tbody>
</table>

Table 23: Final selection of Islamic Capital Protected Funds

<table>
<thead>
<tr>
<th></th>
<th>USD Million</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>NAV Average</strong></td>
<td>1.80  6.68  33.42  65.88</td>
</tr>
<tr>
<td><strong>NAV Median</strong></td>
<td>1.80  4.79  33.2  49.42</td>
</tr>
<tr>
<td><strong>Number of Funds</strong></td>
<td>2  3  3  6</td>
</tr>
</tbody>
</table>

Figure 14: Islamic final selected capital protected funds aggregation

4. Survey results

a. The approach

- For each fund, we tried to collect the respective prospectus and the latest annual report, if available.
- In the prospectus, we looked for information related to: type of fund, type of assets, protection strategy and fund valuation.
We might encounter different type of assets for the Islamic protected fund. This is mainly due to the “Islamic contract-based” nature of the funds. Therefore, in addition to traditional classifications, we will also find ijarah based assets, trade finance or Murabahah, etc.

For the funds where the type of assets was not mentioned, we scrutinized the respective prospectus and some websites, to confirm their asset allocation.

Normally, the redemption/subscription frequency is deduced from the annual report. Sometimes, either the annual report consolidates the results of the respective mother companies and hence do not disclose the details of the funds; or the annual report is simply not available online by any means.

Pertaining to secondary trading, we browse the respective stock exchange markets and we check whether the ISIN code of the fund or its name appear on the website.

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1 For the conventional protected funds we usually refer to the following type of assets: Equity, Bond and Mixed assets.
b. Funds’ profiles

**NBK Islamic Ijarah fund VIII**
- NBK Islamic Ijarah Fund and NBK Thahabi Ijarah fund series operate under the same principle. Therefore, we take NBK-Islamic Ijarah fund VIII as an example, the investment and protection strategies are to be generalized for the others. NBK Islamic KD Ijarah Fund, however, is denominated in KWD while the above mentioned series uses USD. This implies an additional currency SWAP in the investment strategy as will be explained later.

- **Investment strategy**
  - NBK Islamic Ijarah fund VIII has a ‘fund of funds’ structure. All the assets are invested in Ijarah transactions through “Wafra Equipment Ijara Fund”. NBK Islamic Ijarah fund VIII expects to repay the Principal at the end of the Fund Term and to provide fixed monthly yield called “the lease yield”.
  - NBK Islamic Ijarah fund and NBK Thahabi Ijarah fund series functioning includes several counterparties and could be summarized as follows:

**Wafra Equipment Ijarah Fund:** The investment fund that is a limited liability company organized and established as an exempted company under the laws and regulations of the Cayman Islands and approved by the relevant regulatory authorities, in which NBK shall invest for and on behalf of the Fund pursuant.

**Lease Originator:** Companies selected by Wafra that are specialized in generating and servicing lease transactions.

**Leaseco:** A special purpose subsidiary of the Lease Originator(s) established for the benefit of the Fund (Also referred to as an SPV). The Fund expects to purchase equipment from the Leasecos and then immediately lease the equipment back to Leasecos under the terms of the Master Leases. Each Master Lease will require Leaseco to pay rents to the Wafra Fund, adequate to pay (a) the Lease Yield; (b) return of Investor Principal; (c) Fund costs; and (d) fees. The title of the assets will pass at the end of the term to Leaseco.

**Lessees:** Leaseco will sublease the equipment to users, pursuant to subleases identified at the time the Wafra Fund acquires the equipment. The responsibility for servicing the subleases, and for re-leasing or re-marketing the equipment, will be assumed by Leaseco. These leases will be assigned to the Wafra Fund as security for the Master Leases.

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**Figure 15: NBK Islamic Ijarah Fund investment Strategy**
Similarly, NBK Islamic KD Ijarah Fund series has a ‘fund of funds’ structure. All the assets are invested in Ijarah transactions through the “Wafra Ijara KWD Fund”. NBK Islamic KD Ijarah Fund series are also expected to repay the Principal at the end of the Fund Term and to provide fixed monthly yield called “the lease yield”.

NBK Islamic KD Ijarah Fund series follows the same investment strategy as its NBK Ijarah fund peers. The difference is that this particular fund series is denominated in Kuwaiti Dinar which implies an additional step within the overall fund functioning.

- Islamic Currency Swap: The Master Leases are expected to be in US Dollars, while the Principal and Lease Yield will be denominated in KD. The Wafra Fund will engage in Islamic Swap transactions to facilitate the distributions of Lease Yield and the return of Principal to Investors in KD. These kinds of swaps (called also Islamic Cross-Currency Swaps) debuted only recently when Standard Chartered executed the first ever swap transaction of this kind for Bank Muamalat Malaysia in July 2006.¹

A majority of Leaseco’s income is expected to be derived from the subleases. Additional income will be derived from re-leasing, or (if Leaseco exercises its purchase option) selling the equipment at the end of the initial leases, or a combination thereof (“Residual Value”). The historical Residual Values realized by the Lease Originator are expected to substantially exceed the Residual Values required to fund the master lease payments remaining after the sublease rentals are taken into account. If Leaseco receives income in excess of current Master Lease payments, such income may be retained and reinvested in additional equipment, which will also secure the obligations of the Leaseco to the Fund.²

---

Protection strategy:

- The Fund, through its investment in the “Wafra Equipment Ijara Fund”, will rely primarily on equipment leases and the Residual Value of the equipment to repay the Investor Principal and to pay the yield to the investors.
- NBK Islamic Ijarah fund VIII assets are of high credit quality. In fact, the underlying fund, “Wafra Equipment Ijara Fund”, will select high quality lessees, with a particular focus on “Fortune 1000” companies and companies that are found to be of high credit quality. The equipment portfolios of the Fund will have a diverse range of leases and equipment types, thus, reducing the overall Fund risk.
### Profile summary

<table>
<thead>
<tr>
<th>Fund name</th>
<th>Type of asset</th>
<th>Type of fund</th>
<th>Subscription/Redemption Frequency</th>
<th>Protection technique</th>
<th>Valuation Method</th>
<th>Secondary trading</th>
</tr>
</thead>
<tbody>
<tr>
<td>NBK Islamic Ijarah fund VIII</td>
<td>Equipment leases</td>
<td>Closed-end</td>
<td>N/A</td>
<td>Investing in relatively safe assets (Ijarah); Protection is ensured by investing in a fund that relies on high credit quality equipment leases.</td>
<td>N/A</td>
<td>No</td>
</tr>
</tbody>
</table>
Global Islamic Fund

➢ **Investment strategy**
- To compete with short to medium term fixed rate instruments (Denominated in KD); the fund invests in all Shari’ah-compliant instruments locally and internationally with special emphasis on Murabahah and Wakalah transactions.
- The Fund manager will diversify the investments to provide clients with higher liquidity and lower volatility. The Fund generally invests in the following instruments, according to the Shari’ah:
  - Sukuk issued by Government and semi-government institutions denominated in KWD or any other currency.
  - Shari’ah compliant instruments issued by Kuwaiti banks, regional banks and international banks.
  - Local and international Money Market Instruments.
  - Diversified Islamic investment tools.

Protection strategy:
- The protection is ensured by adopting a cautious investment policy.
- The fund invests in fixed income high credit quality assets. (mainly Murabahah and Wakalah).
- The fund manager obtains necessary guarantees from the institutions in which he invests, provided that they are highly solvent in the first place.
- The fund diversifies investment risks by allocating its assets as follows:
  - The fund can invest up to 100% of the assets in governmental and semi-governmental securities.
  - Its investments in Kuwaiti banks should not exceed 30% of the total assets.¹

➢ **Financial institution**: The fund is managed by Global Investment House.
➢ **Inception date**: December 2002.
➢ **Investment Objective**: The Fund seeks to generate consistent returns higher than KD fixed deposit rates between 3-12 months, while preserving capital and complying with Shari’a guidelines.
➢ **Type of assets**: Fixed Income.

¹ Sources:
Website: [http://www.globalinv.net/contentdisp.asp?pageId=532](http://www.globalinv.net/contentdisp.asp?pageId=532)
Factsheet: [http://www.globalinv.net/PDFs/funds/Islamic%20Fund.pdf](http://www.globalinv.net/PDFs/funds/Islamic%20Fund.pdf)
Prospectus: [http://www.globalinv.net/PDFs/funds/Islamic%20fund_ArticleOfA.pdf](http://www.globalinv.net/PDFs/funds/Islamic%20fund_ArticleOfA.pdf)
### Profile summary

<table>
<thead>
<tr>
<th>Fund name</th>
<th>Type of asset</th>
<th>Type of fund</th>
<th>Subscription/Redemption Frequency</th>
<th>Protection technique</th>
<th>Valuation Method</th>
<th>Secondary trading</th>
</tr>
</thead>
<tbody>
<tr>
<td>Global Islamic Fund</td>
<td>Fixed Income: Safe assets: Local and international Governmental and Corporate fixed income securities, Money market instruments.</td>
<td>Open-ended</td>
<td>N/A</td>
<td>Investing in safe assets: The Fund invests in Fixed income securities, mainly within governmental/semi-governmental counterparties and highly solvent corporate institutions.</td>
<td>• The NAV of the fund is calculated on a weekly basis using forward pricing.</td>
<td>The mother company is listed on the Kuwait Stock Exchange but the Fund was not found.</td>
</tr>
</tbody>
</table>

---

Meezan Capital Protected Fund - II

- **Investment and Protection Strategy**

**Capital Protection Segment**
- Approximately 75.5% of the Fund would be allocated to Capital Protection Segment, which will grow to the level of initial investment at maturity.
- Capital protection shall be achieved through investing funds in “AAA”-rated Shari’ah Compliant Ijarah Sukuk issued by the Government of Pakistan.
- Alternatively, the assets of the Fund may be placed with a Scheduled Islamic Bank or Islamic windows having at least a minimum rating of A- (A minus) at the time of placement.
- The remaining assets of the Fund will be allocated to the Investment Segment and may be invested in assets with minimum investment grade, wherever applicable, that have the potential to provide a high return to investors.

**Investment Segment:**
- 24.5% of the Fund would be allocated to the Investment Segment that is expected to provide the upside over and above principal at the time of maturity.
- This amount will be invested in Shari’ah compliant equity securities listed on Pakistani Stock Exchanges.¹

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¹ Sources:
Website: http://www.almeezangroup.com/MutualFunds/OpenEndFunds/MeezanCapitalProtectedFundII/tabid/146/Default.aspx
Prospectus: http://www.almeezangroup.com/Portals/0/MCPFII_OD.pdf

- **Financial institution:** The fund is managed by Al Meezan Investment Management Limited a subsidiary of Meezan Bank.
- **Inception date:** 5th July 2011.
- **Investment Objective:** The objective is to provide investors 100% protection of their capital while offering them competitive returns through participation in the equity market. The duration of the fund is 3 years and six weeks from the date of subscription of units.
- **Type of assets:** Mixed assets.
### Profile summary

<table>
<thead>
<tr>
<th>Fund name</th>
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<th>Type of fund</th>
<th>Subscription/Redemption Frequency</th>
<th>Protection technique</th>
<th>Valuation Method</th>
<th>Secondary trading</th>
</tr>
</thead>
<tbody>
<tr>
<td>Meezan Capital Protected Fund - II</td>
<td><strong>Mixed assets:</strong>&lt;br&gt;<strong>Safe assets:</strong> Government Ijarah Sukuk, bank deposits, cash and cash equivalent.&lt;br&gt;<strong>Risky assets:</strong> Listed equity securities.</td>
<td>Open-ended</td>
<td>As the fund was created in July 2011, units are still in issuance state: 7,900,199 units have been issued&lt;sup&gt;1&lt;/sup&gt;</td>
<td>Investing in safe assets:&lt;br&gt;The fund adopts a static hedging strategy by holding to maturity “AAA” government Ijarah Sukuk that constitute 75.5% of the NAV.</td>
<td>• The NAV of the fund is calculated on a daily basis using forward pricing method.</td>
<td>Yes&lt;sup&gt;2&lt;/sup&gt;</td>
</tr>
</tbody>
</table>

<sup>1</sup> Quarterly report for the Period 5<sup>th</sup> July to 30<sup>th</sup> September 2011: [http://www.almeezagroup.com/Portals/0/MCPF%20Quarterly%20Sep%202011%20Final.pdf](http://www.almeezagroup.com/Portals/0/MCPF%20Quarterly%20Sep%202011%20Final.pdf)

Meezan Islamic Income Fund

Investment strategy
- The fund might not be categorized as "capital protected"-it is rather considered as an income oriented fund- yet capital preservation is one of the stated objectives.
- The purpose of the fund is to provide safe and stable halal\(^1\) income and to generate long-term risk adjusted returns.
- The Fund shall also keep an exposure on short-term instruments for the purpose of maintaining liquidity and to capitalize on exceptional returns at any point of time.
- The portfolio shall be geared towards maximizing annual income to the extent consistent with preservation of capital. The portfolio is composed of long, medium and short term high quality Islamic income instruments.\(^2\)

Protection strategy:
- The capital protection strategy relies on the type of assets that constitute the portfolio:
  - Credit quality of the portfolio: (in % NAV)\(^3\)
    - 43% government securities, 14% AAA, 10% AA-.
  - Sector allocation: (in %NAV)
    - 39% Ijarah Sukuk, 43% Government backed / guaranteed Securities, 13% Commercial Papers.

Financial institution: The fund is managed by Al Meezan Investment Management Limited a subsidiary of Meezan Bank.
Inception date: 15\(^{th}\) January 2007.
Investment Objective: To provide investors with a high and stable rate of current income consistent with long term preservation of capital in a Shari‘ah compliant way. A secondary objective is to take advantage of opportunities to realize capital appreciation.
Type of assets: Mixed assets.

---
\(^1\) "Halal" is an Arabic word that means "lawful".
\(^2\) Sources: [Website](http://www.almeezangroup.com/MutualFunds/OpenEndFunds/MeezanIslamicIncomeFund/tabid/76/Default.aspx)

### Profile summary

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<th>Protection technique</th>
<th>Valuation Method</th>
<th>Secondary trading</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Meezan Islamic Income Fund</strong></td>
<td><strong>Mixed assets:</strong> Government backed / Guaranteed Securities, Ijarah Sukuk, bank deposits, cash. <strong>Safe assets:</strong> Government backed / Guaranteed Securities, Ijarah Sukuk, Guaranteed Securities. <strong>Risky assets:</strong> Musharakah and Mudarabah arrangements (less than 1%).</td>
<td>Open-ended</td>
<td>Number of units as at 30th June 2011: 1 Created: 27,729,224 Cancelled: 47,749,302</td>
<td>Investing in high quality Islamic income instruments: Government securities, Ijarah Sukuk, Guaranteed Securities.</td>
<td>• The NAV of the fund is calculated on a daily basis using forward pricing method.</td>
<td>Yes²</td>
</tr>
</tbody>
</table>

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¹ Annual report for the year ended June 30, 2011: [http://www.almeezangroup.com/Portals/0/MIIF%20Annual%202011.pdf](http://www.almeezangroup.com/Portals/0/MIIF%20Annual%202011.pdf)

² Listed in Karachi Stock Exchange
HBL Islamic Money Market Fund

➢ **Investment strategy**
  • To align itself with the stated objectives, the fund would invest in low risk Shari’ah compliant securities:
    o Mainly Bank deposits with Islamic banks and Islamic banking windows of conventional banks;
    o Shari’ah compliant money market instruments such as Certificate of Islamic Investments (COII), Certificate of Musharakah (COM) with Commercial banks & DFIs, Non-banking Financial Companies (NBFCs) and Mudarabah companies;
    o Any other Shari’ah compliant money market structure, instrument or security such as Certificate of Deposit (CoD), Musharakah, Mudarabah, Ijarah, Murabahah (including commodity Murabahah), Salam, Istisna’, etc. as per the guidelines of the Fund’s Shari’ah Advisor; and
    o The Fund can also invest in Shari’ah Compliant investments outside Pakistan local regulation.
  • The maximum time to maturity of any asset invested in this fund shall not exceed six (6) months.

➢ **Protection strategy:**
  • Fund asset selection is subject to certain rating criteria:
    o Rating of any security in the portfolio shall not be lower than Double A (AA).
    o Rating of any Bank/DFI with which funds shall be placed shall not be lower than Double A (AA).
    o Rating of any NBFC or Mudarabah where funds shall be placed shall not be lower than Triple A (AAA)

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➢ **Financial institution:** The fund manager is HBL Asset Management.
➢ **Inception date:** 10th May 2011.
➢ **Investment Objective:** The objective of the Fund is to seek high liquidity, competitive return and maximum possible preservation of capital for investors.
➢ **Type of assets:** Islamic money market.

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1 Sources: [Prospectus](http://www.hblasset.com/assets/pdf/HBL%20Islamic%20Money%20Market%20Fund.pdf)
Fund’s facts: [http://www.hblasset.com/HBL_Islamic_Funds_Term_Sheet.pdf](http://www.hblasset.com/HBL_Islamic_Funds_Term_Sheet.pdf)
### Profile summary

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<th>Protection technique</th>
<th>Valuation Method</th>
<th>Secondary trading</th>
</tr>
</thead>
</table>
| **HBL Islamic Money Market Fund** | Islamic Money Market instruments (IMMI): Certificate of Islamic Investments, Certificate of Deposits and other money market investment tools. | Open-ended   | Number of units as at 30<sup>th</sup> June 2011:<sup>1</sup>  
Created: 3,917,160  
Cancelled: 20 | Investing in high quality IMMI: The fund imposes certain rating criteria on the selected instruments and the institutions in which it invests. | Yes<sup>2</sup> | Yes<sup>2</sup> |

<sup>1</sup> Annual report for the period 10th May to 30th June 2011:  
<sup>2</sup> Listed in Lahore Stock Exchange (LSE)
AMB Dana Aqeel-Capital Protected Fund

- **Investment strategy**
  - The Fund is suitable for investors with the following profile:
    - Seeking low risk investments that are in accordance with Shari’ah Principles.
    - Seeking a Fund that protects the initial capital with potential to yield a better return than the 12-month GIA rates of commercial banks.
    - Medium term investment horizon of 3 years.

- **Protection strategy:**
  - The Fund will primarily invest in high quality locally issued Sukuk to provide capital protection until maturity. 85% to 98% of the fund’s NAV will be injected in Shari’ah fixed income securities.
  - Investment in fixed income securities is an attempt to make its value appreciate to a level that is equivalent to the capital provided by the Unit Holders to this Fund, or greater, at the end of the investment period, through the generation of income. This will allow the investment in fixed income securities to protect the capital of the Unit Holders at the end of the period and where possible, provide some capital returns.
  - The remainder of the initial capital is invested in Shari’ah-compliant equities to provide potential capital gain to the Fund. The Equity threshold is set at 10% NAV.
  - At least 2% NAV should be held in cash equivalent instruments for liquidity purposes.
  - Interest rate risk is mitigated by way of investing in fixed income securities maturing on or before the maturity of the Fund.
  - Credit or issuer’s risk is mitigated through investing in a portfolio of diversified fixed income securities with a minimum credit rating of “AA3” or its equivalent, undertaking thorough analysis prior to the purchase of the fixed income securities, limiting the amount of investment in particular fixed income securities issued by a particular group (spread and concentration), monitoring constantly all the invested fixed income securities to detect any possibility of default at an early stage.  

- **Financial institution:** The fund is managed by CIMB-Principal Asset Management Berhad and the trustee is Amanah Raya Trustees Berhad.
- **Inception date:** 9th March 2010.
- **Investment Objective:** To protect the initial capital of the Fund at the Maturity Date through investments principally in fixed income securities, predominantly in Sukuk that are permissible under Shari’ah Principles whilst seeking potential returns throughout the tenure of the Fund.
- **Type of assets:** Mixed Assets. Cautious.

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Sources:
### Profile summary

<table>
<thead>
<tr>
<th>Fund name</th>
<th>Type of asset</th>
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<th>Protection technique</th>
<th>Valuation Method</th>
<th>Secondary trading</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>AMB Dana Aqeel-Capital Protected Fund</strong></td>
<td><strong>Mixed Assets-Cautious</strong>&lt;br&gt;<strong>Risky asset:</strong> Less than 10% in equity.&lt;br&gt;<strong>Safe assets:</strong> Islamic Debt instrument 85%) and cash equivalent.</td>
<td>Close-ended</td>
<td>N/A</td>
<td>Investing in safe assets:&lt;br&gt;The fund adopts a static hedging strategy by holding to maturity high quality locally issued Sukuk that constitute 85% to 98% of the NAV.</td>
<td>• The NAV of the fund is calculated on a daily basis using forward pricing method.</td>
<td>No&lt;sup&gt;1&lt;/sup&gt;</td>
</tr>
</tbody>
</table>

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<sup>1</sup> The fund was not found in Bursa Malaysia website: http://www.bursamalaysia.com/website/bm/
ASM Syariah Capital Protected Sector Linked Fund

➢ **Investment strategy**

- The fund targets investors who are willing to:
  - Invest for 3 years tenure.
  - Protect their initial capital upon the maturity of the fund.
  - Receive potentially higher returns than the rate of return of the 12-month Kuala Lumpur Islamic Reference Rates (KLIRR), which is the Fund’s performance benchmark.

➢ **Protection strategy:**

- To achieve the capital protection objective, the Fund will invest 88% to 92% of the Fund’s Net Asset Value (NAV) in 3-year Islamic Negotiable Instruments of Deposits (INIDs) issued at a discount by several premier financial institutions in Malaysia. This will potentially protect investors’ capital, including a sales charge payable by investors.
- To realize the potential return objective, the fund will invest 6% to 12% of the Fund’s NAV in quality Shari’ah-compliant equities of various sectors in Bursa Malaysia. These equities have been identified as the leaders of their respective sectors under the Economic Transformation Programme (ETP). The Fund’s name thereby reflects the composition of the Fund’s portfolio consisting of INIDs and each sector’s leading equities.
- Up to 2% of the NAV is invested in liquid assets.\(^1\)

➢ **Financial institution:** The fund is managed by ASM Investment Service Berhad.

➢ **Inception date:** 29th November 2011.

➢ **Investment Objective:** To provide a rate of return higher than that of the Fund’s Performance Benchmark whilst seeking to provide capital protection on investors capital over the tenure of the fund.

➢ **Type of assets:** Mixed Assets-Cautious.

---

\(^1\) Sources:
Website: 
http://www.asminvestment.com.my/products/fund_information
Fund’s profile: 
<table>
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<tbody>
<tr>
<td><strong>Fund name</strong></td>
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<tr>
<td>ASM Syariah Capital Protected Sector Linked Fund</td>
</tr>
<tr>
<td><strong>Type of asset</strong></td>
</tr>
<tr>
<td>Mixed Assets: Liquid assets (INIDs), Equities of various sectors (identified as leaders in their respective sectors)</td>
</tr>
<tr>
<td><strong>Risk profile</strong></td>
</tr>
<tr>
<td>Capital Protected</td>
</tr>
<tr>
<td><strong>Protection technique</strong></td>
</tr>
<tr>
<td>Sector Linked Fund</td>
</tr>
<tr>
<td><strong>Type of fund</strong></td>
</tr>
<tr>
<td>Close-ended</td>
</tr>
<tr>
<td><strong>Subscription/Redemption Frequency</strong></td>
</tr>
<tr>
<td>N/A</td>
</tr>
<tr>
<td><strong>Valuation Method</strong></td>
</tr>
<tr>
<td>Forward Pricing Method</td>
</tr>
<tr>
<td><strong>Frequency of valuation</strong></td>
</tr>
<tr>
<td>Daily</td>
</tr>
<tr>
<td><strong>Secondary trading</strong></td>
</tr>
<tr>
<td>No</td>
</tr>
</tbody>
</table>

The fund was not found in Bursa Malaysia website: [http://www.bursamalaysia.com/website/bm/](http://www.bursamalaysia.com/website/bm/)

Investing in high quality Fixed Income Instruments:
Not less than 85% is invested in INIDs issued by premier financial institutions in Malaysia.

The NAV of the fund is calculated using forward pricing method.
CIMB-I Commodities Structured Fund

- **Investment strategy**
  - To provide a regular income, the Fund invests in a 5-year Islamic Dynamic Best of Commodity Structured Product that invests in Shari‘ah-compliant money market instruments and instruments employing the Wa‘ad principle.
  - The capital protection element of the Fund lies on the assumption that the units will be held until the maturity date.

**Protection strategy:**
- The Fund invests at least 95% of the NAV in 100% Capital Protected Five (5)-year Islamic Dynamic Best of Commodity Structured Product ("Dynamic Commodity Structure") issued by CIMB.
- The capital protection is provided by payouts on the Shari‘ah-compliant structured product and not by any guarantee; therefore a full return of the capital is not guaranteed for early redemption.
- Additionally, through the Dynamic Commodity Structure, the Fund will receive potential annual dividend payments linked to the best performance of the three Dynamic Indices. Hence, Unit holders will not risk choosing the wrong Dynamic Index from the three possible choices; but instead will be rewarded with the performance of the best Dynamic Index.
- Up to 5% of the NAV will be invested in Shari‘ah compliant liquid assets for liquidity purposes.
  - **Dynamic Commodity Structure:**
    - The Dynamic Commodity Structure is structured by the issuer (CIMB) from a combination of Shari‘ah-compliant money market instruments and instruments employing the Wa‘ad principle.
  - **Dynamic Indices**
    - The best performing Dynamic Index is the Dynamic Index with the highest index level as determined on the final calculation date (i.e. the final date on which the closing price of each underlying instrument is to be determined).
    - A Dynamic Index is made up of a Reference Portfolio and a Defensive Asset e.g. Shari‘ah-compliant fixed income instrument. The Dynamic Index works by rebalancing between the Reference Portfolio and the Defensive Asset depending on how the market is performing.
    - There are three Reference Portfolios, each representing a weighted basket of Reference Isovol Indices: CIMB Dynamic Isovol Agricultural Index, CIMB Dynamic Isovol Energy Index and CIMB Dynamic Isovol Metal Index.

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1. “Wa‘ad” is an Arabic word and it means “promise”.
   http://my.morningstar.com/ap/quickTake/overview.aspx?PerformanceId=0P0000HK0U&activetab=Overview
### Profile summary

<table>
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<tr>
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<th>Protection technique</th>
<th>Valuation Method</th>
<th>Secondary trading</th>
</tr>
</thead>
</table>
| CIMB-I Commodities Structured Fund 2          | Structured Products: Dynamic commodity structure: It is a combination of money market instruments and Wa’ad based structured products. | Close-ended | Number of units as at 30th June 2011: ¹  
Created: 0  
Cancelled: 86,396,627 | Investing in 100% capital protected Structured Products:  
At least 95% is invested in “Dynamic commodity structure” issued by CIMB, which not only ensures capital protection but also rewards the investors with the performance of the best 3 Dynamic Indices. | The NAV of the fund is calculated using forward pricing method. | No² |

¹ Annual report for the year ended June 30, 2011  
² The fund was not found in Bursa Malaysia website  
http://www.bursamalaysia.com/website/bm/
Almanarah Conservative Growth Fund

➢ **Investment strategy**

“Almanarah conservative Growth Fund” is an open-ended ‘fund of funds’ with a low to medium risk profile.

**Protection strategy:**
- The capital protection strategy relies on the type of assets that constitute the portfolio:
  - **Low to medium risk investments:**
    The fund invests 25% of its portfolio in other Shari’ah Compliant equity funds.
  - **Low risk investments:**
    The remaining 75% of the Fund portfolio is invested in low risk Murabahah and Sukuk Funds.  

➢ **Financial institution:** The fund is managed by The National Commercial Bank (NCB) Capital Company.

➢ **Inception date:** October 2003.

➢ **Investment Objective:** To provide a high level of capital preservation and limited growth opportunities through investing in Equities.

➢ **Type of assets:** Mixed assets.

Sources:
### Profile summary

<table>
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<th>Valuation Method</th>
<th>Secondary trading</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Almanarah Conservative Growth Fund</strong></td>
<td><strong>Mixed assets:</strong> Safe assets: Investments in Murabahah &amp; Sukuk Funds, cash and cash equivalent. Risky assets: investments in Shari'ah Compliant equity funds.</td>
<td>Open-ended</td>
<td>N/A</td>
<td><strong>Investing in safe assets:</strong> About 75% of fund’s portfolio is invested in safe Murabahah and Sukuk Funds. <strong>The NAV will be conclusively determined on every Dealing Day (Monday &amp; Wednesday) based on the latest available security prices on that Dealing Day.</strong></td>
<td></td>
<td>Yes¹</td>
</tr>
</tbody>
</table>

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HSBC Amanah Multi-Assets Defensive Fund

**Investment strategy**
- “Amanah Defensive Fund” is a medium to low risk ‘fund of funds’.
- The fund invests in a range of Shari’ah compliant investment funds such as trade finance, local equity and international equity in order to achieve its objective.
- The Fund is an income accumulation Fund whereby its income will be reinvested and not distributed to the Unit Holders. The reinvestment of the Fund’s income will be reflected in the value and price of the Units.

**Protection strategy: A variation of CPPI**
- The Fund will follow an active investment strategy by allocating capital, at different weightings, across Shari’ah compliant securities such as Murabahah transactions, Sukuk and equities either directly, through Mutual Funds or through Discretionary Managed Accounts in order to achieve the portfolio objective.
- The Fund is a low to medium risk portfolio that invests a high percentage of capital in Murabahah Trade transactions and/or Islamic bonds (Sukuk) and a smaller percentage in Shari’ah-compliant equity Funds.
- The equity exposure of the Fund will not exceed 30% of the total assets in the Fund. The Fund Manager may invest a maximum of 10% of the Funds assets directly in other investments.\(^1\)

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\(^1\) Sources:
### Profile summary

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<th>Secondary trading</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>HSBC Amanah Multi-Assets Defensive Fund</strong></td>
<td><strong>Mixed assets</strong>: Cautious; Safe assets: Murabahah &amp; Sukuk funds or through direct investments/ cash. Risky assets: Local &amp; international equity funds or through direct investment.</td>
<td>Open-ended</td>
<td>N/A</td>
<td>A variation of CPPI: 1- A high percentage of the capital is invested in Murabahah Trade transactions and/or Islamic bonds (Sukuk) and a smaller percentage in Shari'ah-compliant equity Funds. 2- The weighting of each asset type could be adjusted in order to achieve the fund’s objectives.</td>
<td>• The NAV of the fund is calculated Monday and Wednesday based on forward pricing.</td>
<td>Yes¹</td>
</tr>
</tbody>
</table>

¹ Listed on Saudi Stock Exchange (Tadawul)
http://www.tadawul.com.sa
International Trade Finance Fund  
(Sunbullah USD)

- **Investment strategy**
  The fund seeks to provide liquidity and capital appreciation through short and medium term investments in non-interest bearing:
  - International trade finance transactions.
  - Islamic money market instruments, units of other Islamic money market funds.
  - Sukuk; however, the Fund shall not invest more than 20% of its assets in long-term instruments, such as Sukuk.

- **Protection strategy:**
  - The bulk of the capital is invested in International Trade Finance/Murabahah transactions through purchasing of goods and commodities on a spot basis & selling to third parties at a mark up on a deferred payment basis.
  - Even the remaining small portion is invested in safe fixed income instruments (Islamic Money Market instruments and Sukuk).

- **Financial institution:** The fund is managed by Samba Capital.
- **Inception date:** 5th December 1986.
- **Investment Objective:** Capital appreciation through non-interest bearing international trade finance transactions.
- **Type of assets:** Trade Finance / Murabahah.

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2 Terms and Conditions, The Factsheet and The annual report can be found on Samba Capital Website http://sambacapital.samba.com/English/Consumer/HTML/consMutualFunds_01_01_en.html
## Profile summary

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<th>Valuation Method</th>
<th>Secondary trading</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>International Trade Finance Fund (Sunbulah USD)</strong></td>
<td>Trade Finance Murabahah; Safe assets: International Trade Finance Transactions, Money Market instruments, Sukuk (less than 20%), and cash.</td>
<td>Open-ended</td>
<td>Number of units as at 31st December 2010: 1&lt;br&gt;Created: 1,432,281.79&lt;br&gt;Cancelled: 1,284,427.37</td>
<td>Investing in Murabahah transactions: Nearly 96% was invested in Commodity and Energy Murabahah.</td>
<td>• The NAV will be calculated on a daily basis using Forward Pricing.</td>
<td>Yes³</td>
</tr>
</tbody>
</table>

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Shuaa Murabaha Fund

- **Investment and protection strategy**
  - The Fund’s manager tends to allocate the initial capital to different maturities and conservative Islamic money market instruments while maintaining liquidity and achieving competitive returns.
  - To preserve the capital, the fund seeks to invest in conservative tools including Murabaha, Ijarah, recognized Sukuk, and Shari’ah-complaint transactions in the Kingdom of Saudi Arabia and the GCC.
  - The fund can allocate up to 20% to Sukuk issued by sovereign, semi-government and corporate entities with a good reputation and stable financial standing.¹

- **Financial institution**: The fund is managed by **SHUAA Capital Saudi Arabia**.
- **Inception date**: 12ᵗʰ January 2010.
- **Investment Objective**: The fund objective is to preserve capital through investing in Murabaha deposits and Sukuk in Saudi Arabia and the rest of the GCC.
- **Type of assets**: Trade finance/Murabahah.

¹ Sources:
### Profile summary

<table>
<thead>
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<th>Fund name</th>
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<th>Type of asset</th>
<th>Protection Technique</th>
<th>Valuation Method</th>
<th>Subscription/Redemption Frequency</th>
<th>Frequency</th>
<th>Secondary trading</th>
<th>Protection technique</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shuaa Murabaha Fund</td>
<td>Open-ended</td>
<td>Safe assets: Murabaha transactions, and to a lesser extent Sukuk, Ijarah instruments, and Cash.</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>Yes</td>
<td>N/A</td>
</tr>
</tbody>
</table>

*Nearly 97% of the fund's portfolio was invested in Murabaha Deposits.*

*Listed in Saudi Stock Exchange (Tadawul)*

http://www.tadawul.com.sa
Al-Murabih SAR Murabaha Fund

**Investment strategy**

- The fund is ideal for investors who look for:
  - Secure yet lucrative investment.
  - Low risk factor with high liquidity holding.
  - Short and medium term investments in Shari’ah compliant investments.

**Protection strategy:**

- As part of capital protection strategy, the fund invests primarily in short to medium term low risk investments.
- In fact, the deposited capital is invested in commercial Murabahah transactions which includes the purchasing of different types of common commodities - except Gold and Silver - and then sell it at a price exceeding the purchase price to make a profit.
- The fund might also place some of the capital in Sukuk issued by high credit institutions (whether in KSA or the other GCC countries). For liquidity purposes, Sukuk portion should not exceed 20% of the fund’s assets.¹

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¹ Sources:
Prospectus:
Fund's Profile:
http://www.albiladinvest.com/en/murabeh_Invest.asp?TabId=3&Itemid=33
## Profile summary

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<tbody>
<tr>
<td><strong>Al-Murabih SAR Murabaha Fund</strong></td>
<td><strong>Trade Finance Murabahah:</strong> Safe assets: Murabahah transactions, Sukuk (less than 20%), and cash.</td>
<td>Open-ended</td>
<td>N/A</td>
<td>Investing in Murabahah transactions: At least 80% of fund’s assets are invested in Murabahah transactions.</td>
<td>The NAV will be calculated on a daily basis using Forward Pricing.</td>
<td>Yes¹</td>
</tr>
</tbody>
</table>

¹ Listed in Saudi Stock Exchange (Tadawul)
http://www.tadawul.com.sa
Al Hadi Sharia Compliant Fund

- Investment and protection strategy
  - The Fund invests mainly in the existing local and international funds of Riyad Capital compliant to Shari‘ah criteria set by the Shari‘ah Committee of Riyadh Capital.
  - The fund allocates its assets as follows:
    - Around 90% in commodity trading funds.
    - Around 10% in local & international equities funds.
  - The Fund manager will have absolute discretion to overweight or underweight asset classes of the indicated weightings.
  - The fund manager has full option to increase or decrease the weight of any region or market in the portfolio.
  - The Fund manager will review the history of such assets, recommendations of international investment institutions, his own evaluation of the markets, price momentum, companies’ earnings, economic factors, performance outlook and correlations of markets and funds. The fund manager shall monitors political and economic conditions on a daily basis and adjusts his strategy accordingly.  

- Financial institution: The fund is managed by Riyad Capital Company.
- Inception date: 31st December 2002.
- Investment Objective: The fund aims to achieve short term capital preservation and to realize a competitive rate of return within low risk level.
- Type of assets: Mixed assets-Cautious.

---

Sources:
### Profile summary

<table>
<thead>
<tr>
<th>Fund name</th>
<th>Type of asset</th>
<th>Type of fund</th>
<th>Subscription/Redemption Frequency</th>
<th>Protection technique</th>
<th>Valuation Method</th>
<th>Secondary trading</th>
</tr>
</thead>
<tbody>
<tr>
<td>Al Hadi Sharia Compliant F</td>
<td><strong>Mixed assets-Cautious:</strong> Safe assets: Commodity trading funds and cash. Risky assets: Local &amp; international equity funds.</td>
<td>Open-ended</td>
<td>Number of units as at 31st December 2010:</td>
<td>A Variation of CPPI: 1- 90% of the assets are held in commodity trading funds and 10% in local and international equity Funds. 2- The weighting of each asset type could be adjusted in order to achieve the fund’s objectives.</td>
<td>Valuations shall be performed on Monday and Wednesday weekly and according to closing prices.</td>
<td>Yes</td>
</tr>
</tbody>
</table>

---

1 Annual report for the year ended December 31, 2010

### c. Summary of Islamic Capital protected funds survey

<table>
<thead>
<tr>
<th>Fund name</th>
<th>Type of asset</th>
<th>Type of fund</th>
<th>Subscription/Redemption Frequency</th>
<th>Protection technique</th>
<th>Valuation Method</th>
<th>Secondary trading</th>
</tr>
</thead>
<tbody>
<tr>
<td>NBK Islamic Ijarah fund VIII</td>
<td>Ijarah assets: Equipment leases.</td>
<td>Close-ended</td>
<td>N/A</td>
<td>Investing in relatively safe assets (Ijarah): Protection is ensured by investing in a fund that relies on high credit quality equipment leases.</td>
<td>N/A</td>
<td>No</td>
</tr>
<tr>
<td>Kuwait</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Global Islamic Fund</td>
<td>Fixed Income: Safe assets: Local and international Governmental and Corporate fixed income securities, Money market instruments.</td>
<td>Open-ended</td>
<td>N/A</td>
<td>Investing in safe assets: The Fund invests in Fixed income securities, mainly within governmental/semi-governmental counterparties and highly solvent corporate institutions.</td>
<td>•The NAV of the fund is calculated on a weekly basis using forward pricing.</td>
<td></td>
</tr>
<tr>
<td>Kuwait</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>The mother company is listed on the Kuwait Stock Exchange but the Fund was not found.</td>
<td></td>
</tr>
<tr>
<td>Meezan Capital Protected Fund - II</td>
<td>Mixed assets: Safe assets: Government Ijarah Sukuk, bank deposits, cash and cash equivalent. Risky assets: Listed equity securities.</td>
<td>Open-ended</td>
<td>N/A</td>
<td>Investing in safe assets: The fund adopts a static hedging strategy by holding to maturity “AAA” government Ijarah Sukuk that constitutes 75.5% of the NAV.</td>
<td>•The NAV of the fund is calculated on a daily basis using forward pricing method</td>
<td>Yes</td>
</tr>
<tr>
<td>Pakistan</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>HBL Islamic Money Market Fund</td>
<td>Islamic Money Market instruments (IMMI): Certificate of Islamic Investments, Certificate of Deposits and other money market investment tools.</td>
<td>Open-ended</td>
<td>Number of units as at 30th June 2011: Created: 3,917,160 Cancelled: 20</td>
<td>Investing in high quality IMMI: The fund imposes certain rating criteria on the selected instruments and the institutions in which it invests.</td>
<td>•The NAV of the fund is calculated on a daily basis using forward pricing method</td>
<td>Yes</td>
</tr>
<tr>
<td>Country</td>
<td>Fund Name</td>
<td>Asset Allocation</td>
<td>Open-ended</td>
<td>Number of units as at 30th June 2011: Created:</td>
<td>Number of units as at 30th June 2011: Cancelled:</td>
<td>Investing in high quality Islamic income instruments:</td>
</tr>
<tr>
<td>----------</td>
<td>-----------</td>
<td>-----------------</td>
<td>------------</td>
<td>-----------------------------------------------</td>
<td>-----------------------------------------------</td>
<td>------------------------------------------------</td>
</tr>
<tr>
<td>Pakistan</td>
<td>Meezan Islamic Income Fund</td>
<td><strong>Mixed assets:</strong> Safe assets: Government backed / Guaranteed Securities, Ijarah Sukuk, bank deposits, cash. Risky assets: Musharakah and Mudarabah arrangements (less than 1%)</td>
<td>Open-ended</td>
<td>27,729,224</td>
<td>47,749,302</td>
<td>Government securities, Ijarah Sukuk, Guaranteed Securities.</td>
</tr>
<tr>
<td>Malaysia</td>
<td>AMB Dana Aqeel-Capital Protected Fund</td>
<td><strong>Mixed Assets-Cautious</strong> Risky asset: Less than 10% in equity Safe assets: Islamic Debt instrument 85%) and cash equivalent.</td>
<td>Close-ended</td>
<td>N/A</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Malaysia</td>
<td>ASM Syariah Capital Protected Sector Linked Fund</td>
<td><strong>Mixed Assets-Cautious:</strong> Safe assets: INIDs, Liquid assets. Risky assets: Equities of various sectors (identified as leaders in their respective sectors).</td>
<td>Close-ended</td>
<td>N/A</td>
<td></td>
<td>Not less than 88% is invested in INIDs issued by premier financial institutions in Malaysia.</td>
</tr>
<tr>
<td>Malaysia</td>
<td>CIMB-I Commodities Structured Fund 2</td>
<td><strong>Structured Products:</strong> Dynamic commodity structure: It is a combination of money market instruments and Wa‘ad based structured products.</td>
<td>Close-ended</td>
<td>86,396,627</td>
<td></td>
<td>At least 95% is invested in “Dynamic commodity structure” issued by CIMB, which not only ensures capital protection but also rewards the investors with the performance of the best 3 Dynamic Indices.</td>
</tr>
<tr>
<td>Country</td>
<td>Fund Name</td>
<td>Asset Allocation</td>
<td>Open-ended</td>
<td>NAV Calculation</td>
<td>Fund Characteristics</td>
<td></td>
</tr>
<tr>
<td>-------------</td>
<td>---------------------------------------------------</td>
<td>---------------------------------------------------------------------------------------------------</td>
<td>------------</td>
<td>----------------------------------------------------------------------------------</td>
<td>------------------------------------------------------------</td>
<td></td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>Saudi Arabia Almanarah Conservative Growth Fund</td>
<td><strong>Mixed assets:</strong> Investments in Murabahah &amp; Sukuk Funds, cash and cash equivalent. <strong>Risky assets:</strong> investments in Shari’ah Compliant equity funds.</td>
<td>Open-ended</td>
<td>Invested in a wide range of products.</td>
<td>Yes</td>
<td></td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>HSBC Amanah Multi-Assets Defensive Fund</td>
<td><strong>Mixed assets - Cautious:</strong> Investments in Murabahah &amp; Sukuk funds or through direct investments/ cash. <strong>Risky assets:</strong> Local &amp; international equity funds or through direct investment.</td>
<td>Open-ended</td>
<td>Calculated on a forward pricing basis.</td>
<td>Yes</td>
<td></td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>International Trade Finance Fund (Sunbullah USD)</td>
<td><strong>Trade Finance:</strong> Invested in Trade Finance transactions, Money Market instruments, Sukuk (less than 20%), and cash.</td>
<td>Open-ended</td>
<td>Number of units as at 31st December 2010. Created: 1,432,281.79 Cancelled: 1,284,427.37</td>
<td>Yes</td>
<td></td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>Shuaa Murabaha Fund</td>
<td><strong>Trade Finance:</strong> Invested in Murabahah transactions, and to a lesser extent Sukuk and Ijarah instruments and Cash.</td>
<td>Open-ended</td>
<td>Invested in Murabahah transactions: Nearly 96% was invested in Commodity and Energy Murabahah.</td>
<td>N/A</td>
<td></td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>Al-Murabih SAR Murabaha Fund</td>
<td><strong>Trade Finance:</strong> Invested in Murabahah transactions, Sukuk (less than 20%), and cash.</td>
<td>Open-ended</td>
<td>Invested in Murabahah transactions: At least 80% of fund’s assets is invested in Murabahah transactions.</td>
<td>Yes</td>
<td></td>
</tr>
</tbody>
</table>
### Al Hadi Sharia Compliant Fund

- **Mixed assets-Cautious:** Commodity trading funds and cash.
- **Safe assets:** Local & international equity funds.

<table>
<thead>
<tr>
<th></th>
<th>Open-ended</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Number of units as at 31st December 2010:</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Created:</strong></td>
<td>(2,213,817.81)</td>
</tr>
<tr>
<td><strong>Cancelled:</strong></td>
<td>(163,765.58)</td>
</tr>
</tbody>
</table>

**A Variation of CPPI:**

1. 90% of the assets are held in commodity trading funds and 10% in local and international equity Funds.
2. The weighting of each asset type could be adjusted in order to achieve the fund’s objectives.

- Valuations shall be performed on Monday and Wednesday weekly and according to closing prices

*Table 24: Summary of Islamic Capital Protected Fund Survey*

---

Yes
d. Summary

In this survey, we explored 58 capital protected funds, 14 of which are Islamic. The remaining 44 funds belong to four different geographical areas: 10 European funds, 11 American funds, 17 Asiatic funds and 6 funds from the MENA zone. More than 65% of funds (38 out of 58) are open-ended.

Although each fund uses a slightly different protection technique combination, we generally notice that the protection techniques adopted by funds are not very different from one geographical region to another. For European and American funds, almost 30% use a variation of Bond+Call Option, 50% use a variation of CPPI and 20% invest in relatively safe assets. Asian funds are slightly different. Only 11% and 29% of those funds use a variation of Bond+Call Option and CPPI, respectively. Most of the Asian funds (almost 53%) invest in relatively safe assets. It should be noted that the “Liontamer Fallen Angels Series1 (Trust 26)-Booster” fund, a New-Zealand fund, uses a variation of third party protection agreement — i.e. the fund buys financial assets from a Fund asset Provider, which is the KBC Bank. This Fund asset provider is liable to pay index-linked returns and to ensure the 90% capital protection. MENA funds, a contrario, do not use the Bond+Call Option protection technique: 50% of those funds use a variation of CPPI while the other 50% invest in safe assets.

Since they are governed by an ethical system that hold, inter alia, all Riba and Gharar to be sinful, the Islamic protected funds do not use the Bond+Call Option technique for hedging purposes. They use either a variation of CPPI (2 out of 14) or they invest in safe assets (8 out of 14) or in Murabahah transactions (3 out of 14). The “CIMB-I Commodities Structured Fund 2” fund, a Malaysian fund, uses a different protection technique. It invests in 100% capital protected structured products: At least 95% is invested in “Dynamic Commodity Structure” issued by CIMB, which not only ensures capital protection but also rewards the investors with the performance of the three best Dynamic Indices.

1 Only the final selected funds are discussed.
XII. Conclusion

The concept of Capital protection has evolved over time. Every generation of capital protected products arrived with new mechanisms thanks to which limitations of the predecessors are addressed. Hence, during the three last decades the industry has gone through Bond + Call Option protection strategy, CPPI and Dynamic Hedging. It has strengthened them with additional protection layers and new combinations and variations. Generally, most of the conventional funds (non-Islamic) were found to build their protection upon two layers: the first layer reposes on one of the main protection mechanisms while the second either consists of a third party protection agreement or derivatives for hedging purposes. The global financial crisis, as were previous downturns, was a turning point in the history of capital protected funds. Not only did it boost the demand for such products but it also pushed the issuers to draw lessons from the pitfalls of the latest funds and to build more customized solutions for the clients. The survey revealed, wherever data allows it, that most of the funds established post-2008 are of relatively short investment terms, that they propose innovative features like CPPI with dynamic protection floor and that some of them cope with the cash lock-out feature by allowing early withdrawals without incurring redemptions costs. Interestingly, the survey also showed that some debt funds were labeled as capital protected, which leads to the conclusion that investing exclusively in high debt instruments is also considered by some fund managers as part of the protection tools. The absence of a universal definition of the capital protected fund composition resulted in different definitions given by the selected funds issuers.

Some regions proved to be more responsive to the capital protection concept than others. Europe undeniably has the stronghold of capital protected funds. As far as total net assets are concerned, the region shows the highest average value which is estimated at $61 million. A large number of highly performing protected funds operate there and regulation has been sufficiently developed to impose the adequate transparency requirements for protecting investors’ interests. Capital protection is remarkably sophisticated in the old continent where the CPPI combined with dynamic protection floor has been applied since 1998. Protection techniques as well as the asset classes are fairly diversified across the region.

Though the idea of capital protection was first developed in the USA in the late 80’s, it witnessed great success in Asia, more than America or USA itself. Overall, the capital protected funds industry is quite recent in Asia as compared to Europe or America. Though the oldest Australian fund in the survey was launched in 1993, most of the other Asian countries hosted these products only in the 2000’s. Nevertheless, it seems that the appetite for protected funds is evident and it is expected to increase as a result of the recent financial crisis, as issuers become more innovative, especially in Australia and New Zealand. Apart from these two countries, the level of sophistication of protection techniques is clearly substandard in Asia. This underdevelopment is largely due to regulatory restrictions. India, where protected funds are obliged to follow closed-end structures and place the majority of the portfolio in highly rated debt instruments is an example. In Malaysia, the funds have certain features: they are short term and they all utilize Bond + Call Option model. Though the surveyed Singaporean funds invest in safe debt assets, they become more sophisticated when they extend their protection with interest rate or total return swaps. There is diversity in the types of assets in the region except for Malaysia and India, where cautious mixed assets and bonds dominate. As data related to total net assets are not available for most of the funds, it was not possible to underline an estimation of the average protected funds size in the region.
Protected funds in America are not as abundant as in Europe or Asia. The average protected funds’ Net Asset Value (NAV) is estimated at $60.36 million, benefitting from the performance of global financial institutions that stand behind Latin American funds, while that of North American funds value does not exceed $45 million. Occasional efforts made to launch these kinds of funds have met with only limited success, especially in USA. With regards to the protection techniques, Bond + Call Option, CPPI and safe assets investments were utilized with some variations. Where most of the funds are listed and open-ended, there is a wide diversity in the types of assets, it seems that each country in America tends to favor a particular protection model. USA funds, for example, apply the CPPI strategy combined with a third party protection agreement. Brazil funds, for their part, lean more towards to the Bond + Call Option approach. And the best performing Mexican funds have recourse to high quality debt instruments to protect their capital.

MENA capital protected funds market is far from reaching the level of maturity and sophistication of the other regions. The mutual fund industry is in its nascent stage and so is the capital protected fund sector, if not worse. The very few funds we found and whose documentation is available - though it is not well elaborated - show that protection techniques are rather basic: it is either through investing in safe assets or CPPI combined with derivatives for hedging purposes, while Bond + Call Option model was not detected at all. Assets are either mixed due the use of CPPI or are in the form of bonds.

Islamic protected funds industry is very trivial as compared to its conventional counterpart. Although there were modest experiments dating back to 1990s, it effectively started in 2006 during the Gulf markets crash, hence resulting in more than 20 years of delay. Saudi Arabia has the largest Islamic capital protected funds base, both in terms of the number and size of funds. The largest Saudi funds are managed by the most prominent financial institutions in MENA. Malaysia comes second in terms of importance, followed by Pakistan. The average value of Islamic protected funds is around $47 million and it is largely supported by the contribution of the Saudi funds. So far, Islamic capital protection reposes fundamentally on basic tools, mainly Murabahah transactions and Sukuk. These take place principally in static cautious investments and in trade financing. Islamic protected products do not offer as much diversity in their asset classes and did not prove to be innovative in designing new features or client-centered solutions. They seldom utilize dynamic asset allocation, when Ijarah is not widely deployed although it has an inbuilt capital protection. CPPI with its different variations can be easily adapted to fit with the Islamic context, yet it has rarely been noticed in this survey. In short, the Islamic protected funds industry follows its own trajectory: it is very conservative and it does not encourage controversial imitations. Structured products were utilized only once in this survey whereas the “Islamic Bond + Call Option” was never encountered.
XIII. Annexes

1. Participation Rate

In addition to returning the initial investment, some protected funds offer a certain percentage of the increase in the value of the underlying on the maturity date. The underlying could be:

- A single stock market index or a basket of stock market indices;
- A basket of individual shares;
- Or some other combinations.

The amount that will ultimately be received by the investor could only be known on the maturity date. When the fund is launched, how closely the underlying will be tracked is specified as a percentage (for example 100%). It is referred to as “the participation rate”.

An illustration

A fund offering 100% capital protection at maturity + 100% of the increase in the European stock market index, DJ Euro Stoxx 50. Thus, the fund performance depends on two variables:

- The participation rate, which in this case is 100%
- The underlying stock market index, in this case the DJ Euro Stoxx 50.

Positive scenario: Supposing that the index goes up by 80% before the fund matures, the investor will get a gross return on the final maturity date of 80% (The 80% increase is tracked at a rate of 100%).

Negative scenario: Supposing that, at maturity, the value of the DJ Euro Stoxx 50 has fallen below the starting value. There will be no capital gain, but the initial capital will still be 100% protected.

Figure 17: An illustration of a participation rate
2. Lookback option

The fund performance on the maturity date is determined by the difference between the starting value and the closing value of the portfolio. The Lookback is a formula that optimizes (lowers) the starting value after the launch of the fund. Formulas like these are expensive, which means the participation rate offered will be lower. Therefore, they will only be used if stock markets are uncertain in the short term.

Lookback formula:

-100% capital protection on the final maturity date
-The capital gain = the closing value of the basket less the lowest value during the Lookback period if < starting value (=100), divided by the starting value.

With the Lookback formula, the fund’s performance on maturity depends on the increase in the value of the share basket relative to the lookback value. This is the lowest value of the underlying index/basket during a specific period after the launch of the fund (the Lookback period). Hence, this technique is said to optimize the starting value.

3. Lipper

Lipper, a Thomson Reuters company, is a supplier of mutual funds information, analytical tools and commentary. Lipper’s benchmarking and classifications are widely recognized as the industry standard by asset managers, fund companies and financial intermediaries. Overall, Lipper provides fund data, fund awards designations and rating information.

a. Lipper Leader Rating System

The system helps to guide investors and their advisors in selecting funds that suit individual investment styles and goals. The ratings are derived from formulas that analyze funds against defined key metrics. Funds are compared to similar funds, and only those that truly stand out are awarded Lipper Leader status.

Funds are ranked against their peers on each of four metrics: Total Return, Consistent Return, Preservation and Expense. A fifth measure, Tax Efficiency, applies in the United States. Scores are subject to change every month and are calculated for the following periods: 3-years, 5-years, 10-years, and overall. The overall calculation is based on an equal-weighted average of percentile ranks for each measure over 3-year, 5-year, and 10-year periods.
For each measure, the highest 20% of funds in each peer group are named Lipper Leaders. The next 20% receive a rating of 4; the middle 20% are rated 3; the next 20% are rated 2, and the lowest 20% are rated 1.

Lipper Leaders are updated monthly. Lipper Leaders and the Lipper Leader Fund Count file are updated by the evening of the 7th business day of each month.

Lipper Leader measures are available for several countries. For more about Lipper Leaders and screen for funds: www.lipperleaders.com

b. Total Return

Lipper Leader ratings for total returns reflect funds’ historical total return performance relative to peers. Ratings for Total Return are computed for all Lipper classifications with five or more distinct portfolios and span both equity and fixed-income funds (e.g., large-cap core, general U.S. Treasury, etc.).

Lipper Leaders for Total Return may be the best fit for investors who want the best historical return, without looking at risk. This measure alone may not be suitable for investors who want to avoid downside risk. For more risk-averse investors, Total Return ratings can be used with Preservation and/or Consistent Return ratings to make an appropriate selection that balances the risk and return. For more about Lipper Leader ratings for Total Return: http://www.lipperweb.com/research/TotalReturn.aspx

4. Morningstar

Morningstar, Inc. is a leading provider of independent investment research in North America, Europe, Australia and Asia. It offers a line of products and services for individuals, financial advisors and institutions.

Operating in 27 countries, Morningstar provides data on more than 380,000 investment offerings, including stocks, mutual funds, and similar vehicles, along with real-time global market data on more than 8 million equities, indexes, futures, options, commodities, and precious metals, in addition to foreign exchange and Treasury markets. Morningstar also offers investment management services and has more than $190 billion in assets under advisement or management as of March 31, 2012. Overall, Morningstar accounts for 16 investing websites, each belonging to a specific country or a region: Asia, Australia, Belgium, Canada, Chile, Denmark, France, Germany, Italy, Mexico, The Netherlands, New Zealand, Norway, Spain, U.K and USA.

Regarding products for individual investors, the company proposes Morningstar Fund Screener. It screens thousands of funds using custom or preset criteria based on hundreds of financial data points to find the funds that will fit best in a portfolio. Screening criteria differ from one country website to another. For more about Morningstar see: www.morningstar.com
5. Exchange rates

To be able to compare the capital protected funds sizes across countries and across regions, we decided that it would be practical to convert all the currencies to the US Dollar. The rate used is the average rate for March 2012 (22 days), as the data related to “Total Net Assets” was collected during that month and onward.¹

<table>
<thead>
<tr>
<th>Currency</th>
<th>USD average rate of March 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Euro</td>
<td>1.3201</td>
</tr>
<tr>
<td>GBP</td>
<td>1.58194</td>
</tr>
<tr>
<td>CHF</td>
<td>1.09454</td>
</tr>
<tr>
<td>CZK</td>
<td>0.0534985</td>
</tr>
<tr>
<td>CAD</td>
<td>1.00611</td>
</tr>
<tr>
<td>BRL</td>
<td>0.557857</td>
</tr>
<tr>
<td>CLP</td>
<td>0.00205756</td>
</tr>
<tr>
<td>MXN</td>
<td>0.0784704</td>
</tr>
<tr>
<td>NZD</td>
<td>0.819787</td>
</tr>
<tr>
<td>AUD</td>
<td>1.05303</td>
</tr>
<tr>
<td>KRW</td>
<td>0.000887308</td>
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<tr>
<td>SGD</td>
<td>0.794078</td>
</tr>
<tr>
<td>RM</td>
<td>0.328172</td>
</tr>
<tr>
<td>PKR</td>
<td>0.0110108</td>
</tr>
<tr>
<td>INR</td>
<td>0.0198422</td>
</tr>
<tr>
<td>EGP</td>
<td>0.16566</td>
</tr>
<tr>
<td>TND</td>
<td>0.6625</td>
</tr>
<tr>
<td>KD</td>
<td>3.59414</td>
</tr>
<tr>
<td>SAR</td>
<td>0.266667</td>
</tr>
</tbody>
</table>

| Euro | 1.3201 |
| GBP  | 1.58194 |
| CHF  | 1.09454 |
| CZK  | 0.0534985 |
| CAD  | 1.00611 |
| BRL  | 0.557857 |
| CLP  | 0.00205756 |
| MXN  | 0.0784704 |
| NZD  | 0.819787 |
| AUD  | 1.05303 |
| KRW  | 0.000887308 |

Table 25: Exchange rates applied for USD conversion

¹ The exchange rates were collected from [http://www.x-rates.com/](http://www.x-rates.com/), except for Egypt and Tunisia where we calculated the average rates for March 2012 based on the daily rates of [http://www.exchangerates.org.uk/](http://www.exchangerates.org.uk/)
### XIV. Key terms

<table>
<thead>
<tr>
<th>Term</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Bai Al-Urboon</strong></td>
<td>Bai Al-Urboon is used to replicate the outcome of a call option. A small percentage of the initial capital will be used to purchase “Islamic options” over a basket of Shari’ah compliant commodities or shares. While Bai Al-Urboon is intended to take exposure of these markets, the profits generated by Murabahah transactions are used to compensate for the lost option payment, hence protecting the capital.</td>
</tr>
<tr>
<td><strong>Capital guaranteed fund</strong></td>
<td>In such funds, investors are guaranteed, by the issuing institution, to receive their initial contribution.</td>
</tr>
<tr>
<td><strong>Capital protected fund</strong></td>
<td>Such funds promise to protect, but does not guarantee, the full (or a partial) repayment of initial investments.</td>
</tr>
<tr>
<td><strong>Capital protection agreement</strong></td>
<td>Also referred to as ‘capital protection insurance’ or ‘warranty’. It is used as an additional protection layer. Literally, insurance is provided by a third party to the fund through which the latter is liable to repay the initial investment amount in the event of loss.</td>
</tr>
<tr>
<td><strong>Closed-end fund</strong></td>
<td>A fund that has a fixed number of shares outstanding and does not redeem shares the way “open-ended” funds do.</td>
</tr>
<tr>
<td><strong>Dynamic protection floor</strong></td>
<td>CPPI with Dynamic protection floor works as follows: if the NAV per unit rises, the floor is increased as the NAV is updated to be equal to a certain percentage of the new NAV (e.g 90%).This is in order to limit the down-side risk of the units to a given percentage, not only of the initial issue price, but also of the highest NAV which has been achieved. In other words, it helps to protect the gains achieved so far by the fund.</td>
</tr>
<tr>
<td><strong>ETF</strong></td>
<td>Exchange Traded Fund is a fund that tracks an index but is bought and sold as a listed company.</td>
</tr>
<tr>
<td><strong>Forward pricing</strong></td>
<td>It is a valuation process for open-end mutual fund transactions in which the mutual fund itself is constantly issuing and redeeming shares. As stipulated by the Securities and Exchange Commission, forward pricing consists of processing buy and sell orders for open-ended fund shares at the NAV of the next market close. This occurs because open-ended mutual funds revalue their assets after market closes each trading day. Consequently, any mutual fund order placed by an investor can’t be quoted at a previous NAV. Instead, it must be given according to the next computed NAV to reflect the changes that may have occurred in the fund composition since the previous valuation.</td>
</tr>
<tr>
<td><strong>Fund of funds</strong></td>
<td>A fund that can invest in other funds.</td>
</tr>
<tr>
<td><strong>Geared capital protection</strong></td>
<td>Or ‘leveraged capital protected products’. Refers to borrowing in order to invest in capital protected products. This is widely practiced in Australia.</td>
</tr>
<tr>
<td><strong>Growth fund</strong></td>
<td>A mutual fund whose aim is to achieve capital appreciation by investing in growth stocks. The portfolio comprises companies with above average growth in earnings that reinvest their earnings into expansions, acquisitions, and/or R&amp;D. Companies that pay dividends are usually excluded. The potential for capital appreciation comes at above average risk. Besides, most growth funds are more volatile than other types of funds; rising more in bull markets and falling more in bear markets.</td>
</tr>
</tbody>
</table>
### Income fund

A mutual fund that emphasizes current income rather than emphasizing on capital appreciation. Such funds hold a variety of government, municipal and corporate debt obligations, preferred stock, money market instruments, and dividend-paying stocks. Share prices of income funds are not fixed; they tend to fall when interest rates are rising and increase when interest rates are falling. Generally, the bonds included in the portfolio are of investment grade. The other securities are of sufficient credit quality to assure preservation of capital. Income funds are considered to be conservative investments, they are popular with retirees and other investors who are looking for a steady cash flow without assuming too much risk.

### Index fund

A mutual fund whose investment objective is to achieve approximately the same return as a particular market index, such as the S&P 500 Composite Stock Price Index. An index fund will attempt to achieve its investment objective primarily by investing in the securities (stocks or bonds) of companies that are included in a selected index. Some index funds may also use derivatives (such as options or futures) to help achieve their investment objective. Some index funds invest in all of the companies included in an index; others invest in a representative sample of the companies included in an index. The management of index funds is more “passive” than the management of non-index funds, because an index fund manager only needs to track a relatively fixed index of securities. This usually translates into less trading of the fund’s portfolio, more favorable income tax consequences (lower realized capital gains), and lower fees and expenses than more actively managed funds. Because the investment strategies of an index fund require it to purchase primarily the securities contained in an index, the fund will be subject to the same general risks as the securities that are in the index. In addition, because an index fund tracks the securities on a particular index, it may have less flexibility than a non-index fund to react to price declines in the securities contained in the index.

### Lookback option

The fund performance on the maturity date is determined by the difference between the starting value and the closing value of the portfolio. The Lookback is a formula that optimizes (lowers) the starting value after the launch of the fund.

### Net Asset Value (NAV)

A mutual fund is valued using the Net Asset Value. The NAV per share is the current market value of the fund’s holding minus its liabilities divided by the number of shares in issuance.

### Open-ended fund

A fund that has a variable capital or when there is no restriction on the amount of shares the fund will issue. The fund could redeem shares if the investor wishes to sell them back.

### Participation rate

In addition to protecting the initial investment, some protected funds offer a certain percentage of the increase in the value of the underlying on the maturity date. How closely the underlying will be tracked is specified as a percentage (for example 100%). It is referred to as “the participation rate”.

### Umbrella fund

A collective investment scheme, which is a single legal entity but has several distinct sub-funds, which, in effect, are traded as individual investment funds.
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The Financial Product Development Center (FPDC) was established in Muharram 1432H (December 2010G). Its main purpose is to enhance the leadership of the Islamic Development Bank Group in the development and promotion of innovative Islamic financial products within the framework of the Maqasid al-Shariah. This is accomplished while further strengthening the financial soundness and relevance of the IDB Group.

The Center is the focal point for the development of new and innovative financial instruments at IDB Group, and for this purpose it also collaborates with various institutions in the Islamic financial industry.

**Strategic Objectives**

The Center has three major strategic objectives:
- Developing Business Process for new product development.
- Building capacity of product developers.
- Designing new financial products.

These three objectives are summarized by the “3Ps” that the Center works along: Process, People, and Products.

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