



Prospectus

## NBK Kuwait Equity Fund



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December 2007

Amended August 2008

*National Bank of Kuwait S.A.K announces the offering of investment units in “NBK Kuwait Equity Fund” according to the provisions of Law Decree No. 31 of 1990, concerning the organization of trading in securities and the creation of investment funds, and the Executive Regulation No.113 of 1992 and its subsequent amendments.*

**Fund Name:**

NBK Kuwait Equity Fund.

**Fund Address:**

Watani Investment Company K.S.C.(c) (NBK Capital), Dar Al Awadhi Complex, Ahmad Al-Jaber Street, Kuwait City, P.O.Box 4950 Safat, 13050 Kuwait.

**Fund Objective:**

- The Fund will seek long-term capital appreciation by investing primarily in Kuwaiti domiciled, listed equities.
- From time-to-time, and not ordinarily exceeding 20% (twenty per cent) of the NAV of the Fund, the Investment Manager may choose to invest in non-Kuwaiti stocks that it deems to have significant exposure to the Kuwaiti economy.
- To help measure the success of the Fund, its performance will be measured against the Benchmark.

**Fund Capital:**

The capital of the Fund varies from KD5,000,000 (five million Kuwaiti Dinars) to KD100,000,000 (one hundred million Kuwaiti Dinars).

**Number of Investment Units:**

From 5,000,000 (five million) units to 100,000,000 (one hundred million) units.

**Nominal Value per unit:**

KD1 (one Kuwaiti Dinar) per unit.

**Valuation Day:**

The last business day of each week after the Initial Closing Date.

**Benchmark:**

MSCI Kuwait Index.

**Profit Distribution Policy:**

After the issuance of semi-annual and annual financial statements, the Fund Manager shall, as it may deem appropriate for the benefit of the Fund and its Unitholders, determine the profits to be distributed, as dividends, to the investment units. The distribution and the date and value shall be announced in at least two Arabic local newspapers. The Fund Manager, at its sole discretion, may decide not to distribute dividends in part or in whole to the Unitholders and any profit/revenue from underlying securities will be reinvested on behalf of the Unitholders.

**Term of the Fund:**

The duration of the Fund is 10 (ten) years, commencing from the date of the Fund's approval is published in the official gazette and can be renewed for further similar periods, subject to the approval of 50% (fifty per cent) of the Fund's Unitholders.

**Selling Agent (Distributor):**

National Bank of Kuwait S.A.K. and all its branches inside and outside the State of Kuwait, and its agents and distributors outside the State of Kuwait.

**Subscription Right:**

Subscription in the Fund shall be open to Kuwaiti citizens, citizens of GCC countries, Arabs, foreigners, Kuwaiti and Gulf companies and establishments and foreign companies and establishment inside or outside the State of Kuwait.

**Subscription Period:**

Subscription Period starts on 25/3/2007 and ends on 12/4/2007. Subscription shall be opened throughout the period specified and shall not be closed before expiry of such period. In the event where the Subscription Period is about to expire without all the units being covered, the Fund Manager may, after the approval of the Ministry of Commerce and Industry, request its extension for a similar period unless it covers the value of the units, provided that it does not hold in excess of 50% (fifty per cent) of the total issued units or an amount of KD5,000,000 (five million Kuwaiti Dinars) whichever is higher. The Fund Manager may reduce the capital to the amount that has been covered, provided that it is not less than 50% (fifty per cent) of the total value of the unit offered for subscription after being approved by the Ministry of Commerce and Industry. It may also decide not to go ahead with establishing the Fund and, in such event, shall refund to the subscriber the amount paid by them and the revenue achieved, within a period not exceeding 10 (ten) days from the date of its aforesaid decision.

**Subscription in the Fund:**

1. No Subscription to the Fund shall be made in kind, of whatever type.
2. Subscription to the Fund shall be through the Subscription Application prepared for that purpose and after the signature of the subscriber on that Application accepting terms of the Fund's Articles.

3. Acceptance of Subscription Applications is conditional on applicants having a bank account with the National Bank of Kuwait S.A.K., for the purpose of settling payments and for receiving any redemption proceeds, when needed.
4. The subscriber shall receive from Selling Agent a signed receipt stating the name, nationality and address of the subscriber, date of subscription, number and value of subscription units.

**Minimum and Maximum Subscription:**

Subscriptions to the Fund shall not be less than KD1,000 (one thousand Kuwaiti Dinars) upon the initial subscription and in multiples of KD1,000 (one thousand Kuwaiti Dinars) thereafter. The number of units held by any one participant shall not exceed 50% (fifty per cent) of the Fund's capital.

**Net Asset Value calculation:**

The Net Asset Value per Share will be calculated by the Custodian or any other party approved by the Supervisory Authority and assigned by the Investment Manager. The Net Asset Value will be calculated as follows: the total assets of the Fund less the total liabilities divided by the total number of outstanding Units of the Fund on the Valuation Day.

Normally traded securities shall be valued at the last available closing price in the week at which such security traded unless such price is not representative. In respect of a security for which a representative price is not readily available or is not regularly traded, value shall be based on estimated realizable value. For other types of assets, the Investment Manager shall determine the method of valuation subject to the approval of the Custodian.

**Fund Manager Subscription:**

The Fund Manager shall subscribe to no less than 5% (five per cent) and no more than 10% (ten per cent) of the Fund's capital. The Fund Manager has the right to ask for a higher percentage of the capital according to the instructions of the Central Bank of Kuwait that are specific to the regulation of investment policies of local banks. The Fund Manager shall not have the right to dispose of such shares as long as the Fund continues to exist and in order to ensure its commitment to the laws, executive by-laws and decisions of the Supervisory Authority, and to the minimum and maximum subscription amounts, as long as the minimum subscription amount does not go below that specified in the Executive Regulation. The share certificates shall be retained by the Custodian.

**Allotment:**

1. The Fund Manager's share in the Fund's capital shall be excluded from the subscribed capital before the allotment.
2. Recurring Applications for the same subscriber will be disregarded. The Application with the highest number of shares will be considered.

3. The Fund Manager shall sort the Subscription Applications and perform allocation within a period not exceeding 15 (fifteen) days from the expiry date of the subscription period.
4. In the event where the subscription size exceeds the Fund's capital, the units shall be distributed among subscribers in the rate of their respective subscriptions after the allocation of the minimum subscription to all subscribers.
5. The amount exceeding the value of the units allocated to the subscriber shall be returned to the subscriber within 30 (thirty) days from the date on which the allocation procedures ended. No interest shall be due thereon.
6. The Fund Manager shall deliver a temporary certificate to each subscriber stating the number of allocated units. The nominative investment unit certificate shall replace this temporary certificate. The Fund Manager shall deliver these certificates within one month from the date of completion of the allocation procedures.

**Fund Manager:**

Watani Investment Company K.S.C.(c) (NBK Capital).

**Responsibilities of the Fund Manager:**

The Fund Manager, acting as the Investment Manager as well, shall be responsible for managing and investing the Fund monies.

**Custodian:**

Kuwait Clearing Company S.A.K.

**Advisory Board:**

The Fund Manager may seek the help of one or more persons or institutions experienced in the field of securities to act as an advisory body for the Fund. The Fund Manager shall bear the expenses.

**Auditor:**

Al-Aiban, Al-Osaimi & Partners (Ernst & Young).

**Disclosure of Information:**

1. The Fund Manager shall disclose to Unitholders, any information that may affect the value of their units and the actions taken in this regard.
2. The Fund Manager shall prepare a report on the Fund's activity every three months, showing the financial position of the Fund and shall allow the subscribers to have access thereto. The Fund Manager shall send a copy of this report to the Supervisory Authority.

3. The Manager shall issue audited annual financial statement at the end of every financial year, after they have being reviewed by the auditor. The Manager shall also issue semi-annual financial statement including a report on th Fund's activity during the period, as well as the Profit and Loss Account and shall show any other fees borne by the Fund. The annual and semi-annual reports shall include each economic activity during the relevant period.
4. The Fund Manager shall allow the subscribers to inspect the semi-annual reports after the said reports have been approved by the Supervisory Authority.

### **Valuation, Subscription and Redemption:**

1. Unitholders may redeem their units and others may subscribe to the Fund by submitting an application to this effect to the Distributor by Monday of each week. Subscriptions and redemptions will be valued at the Net Asset Value calculated on the relevant Valuation Day.
2. The proceeds of redemption will be paid by the Distributor in Kuwaiti Dinars to the National Bank of Kuwait S.A.K account designated by the Unitholder in the Redemption Application within 7 (seven) Business Days from the relevant Valuation Day.
3. According to these Articles, the Subscriber in the Fund is restrained by the laws and regulations that any subscriber is subject to in the case of an initial subscription. Also, partial redemption value should not be less than KD1,000 (one thousand Kuwaiti Dinars) and partial redemption will not be allowed if the value of the remaining units drops below KD1,000 (one thousand Kuwaiti Dinars).
4. In the event where the value of subscriptions or redemptions exceeds 10% (ten per cent) of the Net Asset Value of the Fund, the Fund Manager may decrease these applications on a prorated basis or in any other manner that the Fund Manager sees fit, after which subscriptions or redemptions will take place. Subscription or Redemption Applications that were not processed will be carried forward to the next valuation date, according to the previous mentioned rules and regulations.
5. Requests to subscribe or redeem Units in the Fund will be accepted by submitting the Subscription or Redemption Application, which is available at the relevant Distributor. Units shall be redeemed at their Net Asset Value as calculated on the relevant Valuation Day.
6. There are no redemption charges.
7. The Net Asset Value will be calculated weekly.

### **Investment Methods, Strategy and Risks:**

#### **A. Investment Methods and Strategies**

1. The strategy of the Fund will be to outperform the Benchmark by:
  - Overweighting constituents of the Benchmark that the Investment Manager perceives will outperform the Benchmark.

- Underweighting constituents of the Benchmark that the Investment Manager perceives will underperform the Benchmark.
  - Investing in securities that are not part of the Benchmark and are perceived by the Investment Manager to outperform the Benchmark.
  - Increasing the cash allocation of the Fund during weak market conditions or downturns as perceived by the Investment Manager.
2. The Fund will invest primarily in equities with strong fundamentals and good long-term prospects, but may from time to time take shorter-term trading positions to enhance returns and/or reduce risk. Furthermore, there will be no restrictions on sector exposure and/or weighting.
  3. No single investment in the Fund can exceed 30% (thirty per cent) of the Net Asset Value of the Fund.
  4. Long term cash position of no more than 5% (five per cent) of the Net Asset Value of the Fund will be maintained. However, for consecutive periods up to 3 (three) months, cash can rise to 50% (fifty per cent) of the Net Asset Value of the Fund to help with deployment strategies.
  5. The Fund may sell securities for various reasons, such as to secure gains, limit losses or redeploy assets into more promising opportunities.
  6. In addition, the Fund may use techniques and instruments such as warrant, futures and options up to a maximum of 25% (twenty five per cent) of its Net Asset Value, for the purpose of efficient portfolio management and for hedging the risk of fluctuations in the value of the assets of the Fund. Such techniques and instruments will be generally used when prevailing market conditions make such instruments an appropriate way to enhance or protect the value of the Fund.
  7. The Fund Manager may invest in other collective investment funds up to a maximum of 20% (twenty per cent) of its Net Asset Value, or with other managers through separate portfolio accounts to gain wider access to equities where there are direct ownership restrictions.
  8. The Investment Manager may arrange for short-term borrowing for the Fund to manage liquidity requirements, provided that it does not exceed 25% (twenty five per cent) of the Net Asset Value of the Fund. The borrowing will be for the following purposes:
    - a. Redemption purposes.
    - b. Entering into urgent investments.
    - c. Participating in Public Offerings.
  9. The Investment Manager is not allowed to invest the Fund's monies in other funds managed by the Investment Manager.

10. The Fund may hold a maximum equivalent to 5% (five percent) of the Net Asset Value of the Fund in general or specific pre IPO (provide at all times that any stricter limits imposed by any of the regulatory authorities/laws in the Jurisdiction in which the IPO is launched are complied with).

## **B. Investment Risk**

1. The Fund Manager shall manage and invest the Fund's monies through personnel who have the ability and competence to perform this role. These personnel shall have the utmost independence in the management of the Fund's investments and the Fund Manager shall have all powers necessary to manage the Fund and direct the investments in a way that does not conflict with the provisions of the applicable law and the Articles of Association of the Fund. The Fund Manager or personnel may not conclude any transactions or contracts with the Fund, whether for their own account or for the account of their relatives up to the fourth degree which might hold exploitation, in which case the Fund should be compensated for any damage by the person who conducted the transaction.
2. The Fund Manager shall follow the Investment Strategy and Policy as mentioned in the Article of Association and stated by the Supervisory Authority. The Fund Manager is not allowed to change the Investment Policy without the approval of the Supervisory Authority.
3. Investment risk in the Fund is associated with investment instruments that have significant exposure to the economy, therefore the Fund's value of units and subsequent return may be positively or negatively affected by market and economical fluctuations. On the other hand, the Fund's investments will maintain an acceptable investment risk level.
4. Investment in the Fund should be regarded as a long-term investment. However, there can be no guarantee that the objective of the Fund will be achieved. There is a risk inherent in all investments, and the Fund's investments are subject to normal market fluctuations. There are no guarantees that the investment value will appreciate. It is the policy of the Fund to maintain a diversified portfolio of investments, so as to minimize risk.
5. The Investment Manager is ultimately responsible for investing and reinvesting all the assets of the Fund. Therefore, Unitholders will be reliant entirely on the Investment Manager and will not be able to direct the Fund's operations or investments, due to their non-voting rights except in conditions specified in this Article.
6. Unitholders should be aware of the risks associated with investing in the Kuwaiti stock market, as its listed companies are subject to liquidity transactions. Markets are also subject to inflation risks, high interest rates, currency fluctuations and changes in the tax structure, all of which can affect the Fund's income and investment value.
7. The liquidity and selling of equities in the stock market of the State of Kuwait may be limited. Also, unit price movements may be limited by constraints based on the closing prices of the previous day. In addition, the dealing in these equities is less than the dealing in more developed equity markets. Also, the Fund may invest part of its assets in unlisted securities, which may not be liquid by nature, and it may result in the difficulty of the Fund to dispose of these investments at the optimum price, or during a reasonable period at a reasonable price.

8. The Fund is not allowed to lend, short sell, give guarantees, underwrite issues as main underwriter, trade commodities, and deal in real estate, or borrow for the benefit of the Fund, except for the cases mentioned above.
9. The Fund Manager is responsible to the Unitholders for any damage to which they may be subjected, as a result of violating the provisions of the law, the executive regulation or the Fund Articles, or due to misusing the delegated power or gross negligence.

### **Fund Fees and Expenses:**

The Fund will bear fees and expenses incidental to its operation. These will include:

#### **1. Launching Cost**

The Fund will bear its preliminary expenses, and the costs and expenses of offering and issuing the units, as well as other related incidental costs (including expenses relating to the negotiations and preparation of the contacts to which the Fund is a party, the costs of printing the Prospectus and the Articles of Association, fees and expenses of its professional advisors as well as its promotional expenses), all of which are payable by the Fund, and are estimated at a maximum of KD30,000 (thirty thousand Kuwaiti Dinars).

#### **2. Management Fee**

The Fund will pay the Investment Manager a Management Fee of up to 1.5% (one and a half per cent) per annum based on the average weekly Net Asset Value of the Fund, paid quarterly in arrears.

In addition to the aforementioned fees, the Investment Manager may be payable annually in arrears a Performance Fee only when the performance of the Fund is positive. The Performance Fee will be 10% (ten per cent) for every 1.0% (one per cent) excess returns above the Benchmark during the Financial Year. In any case the Investment Manager Fee will not exceed 5% (five per cent) annually.

#### **3. Subscription Fee**

The Fund Manager shall appoint Distributors (National Bank of Kuwait S.A.K. inside the State of Kuwait and its international branches, and its agents and distributors outside the State of Kuwait) and specify their authorities and responsibilities. The Fund Manager has the right to dismiss the Distributors, and the Custodian thereto shall be notified. For carrying out its duties under this Article, a Subscription Fee of 2% (two percent) of the Subscription amount of any subscribed Units is due to the Distributor.

#### **4. Custodian Fee**

The Fund will pay the Custodian a custody fee of up to 0.125% (twelve and a half basis points) per annum of the Net Asset Value for carrying out its duties under these Articles.

## 5. Other Operating Cost

All costs including brokerage, banking, sale and purchase commissions, exchange fees and fees for valuation of unlisted securities outside the State of Kuwait, in addition to fees of the Investment Manager, the Custodian, and the Auditor, and legal Counsel together with government charges and duties will be borne by the Fund.

### **Reports and Balance Sheet:**

1. The Fund Manager shall, every three months, prepare a report concerning the activities of the Fund. The report shall show the financial position of the Fund, and Unitholders shall have the right to inspect this report.
2. The Fund Manager shall prepare a semi-annual and annual report on the performance of the Fund during the ended period. The semi-annual reports shall be issued no later than 30 (thirty) days from the end of that period and shall include the financial statements after being duly reviewed by the external auditors. The annual report must be issued no later than 45 (forty five) days and must include annual financial statements duly reviewed by the external auditors who will also indicate their opinion on these accounts in accordance with the international accounting standards. The Fund Manager shall provide the Supervisory Authority with a copy of these two reports prior to disclosing their contents. The annual financial statement of the Fund shall be published in at least two daily newspapers after the approval of the Supervisory Authority.
3. The annual financial statement shall be published in at least two Arabic daily newspapers after they have been approved by the Supervisory Authority.

### **Books and Reporting:**

The Fund Manager and the Custodian have to keep registers to control the Fund account in accordance with the provisions of article 72 of the Executive Regulation. The Custodian has to keep the necessary registers and records to monitor the Fund Manager, which are in their turn subject to the control of the Supervisory Authority, which has the right to check any of the data therein compiled.

### **Events of Liquidation of the Fund**

The Fund shall be terminated in any of the following events:

- a. Expiry of the term specified for the Fund.
- b. Achievement of the objective for which the Fund has been established.
- c. Termination of the company which established the Fund or if it's declared bankrupt unless another Manager replaces it.
- d. Issue of a court judgment to dissolve the Fund.
- e. If the value of the investment units falls by 50% (fifty per cent) from its initial price, provided that the consent of the Supervisory Authority is obtained along with the consent of 75% (seventy five per cent) of the Unitholders.

- f. Deletion of the Fund from the Register of the Investment Funds in the Ministry of Commerce and Industry.
- g. The Supervisory Authority, of its own initiative or upon the request of the Fund Manager, deems it appropriate to liquidate the Fund for reasons deemed acceptable by the Supervisory Authority in both events.
- h. Consent of 75% (seventy five per cent) of the subscribers to the liquidation upon the request submitted to the Supervisory Authority by holders of 5% (five per cent) of the investment units.
- i. Any other reason stated in the Article of Association of the Fund after the approval of the Supervisory Authority.

**Disclosure of common interest:**

According to the contract dated 3 September 2006, Kuwait Clearing Company S.A.K. (Custodian) shall keep the records of those participating in the capital of the National Bank of Kuwait S.A.K. (Selling Agent).

**Opinion of the Auditor:**

The Auditor agrees and confirms that he reviewed the Prospectus and all its related articles.