

## **Guidance Note 1/05**

### **Undertakings for Collective Investment in Transferable Securities (UCITS) Publication of a Simplified Prospectus**

Regulation 74 of the European Communities (UCITS) Regulations 2003, as amended, ("the Regulations"), requires *inter alia* that a UCITS must publish a simplified prospectus ("SP").

This note provides guidance on the publication of an SP and the information which must be included therein. It takes into account the Recommendation of the European Commission (2004/384/EC).

#### **General Rules**

- (i) The SP must be dated and the essential elements kept up to date.
- (ii) The SP must include the information necessary for investors to be able to make an informed judgement of the investment proposed to them and, in particular, of the risks attached thereto.
- (iii) The SP shall contain in summary form the key information set out in Schedule 4 to the Regulations. It shall be structured and written in such a way that it can be easily understood by the average investor.
- (iv) The SP must be offered to subscribers free of charge before the conclusion of the contract.

#### **Format of a Simplified Prospectus**

To facilitate the efficient review of an SP, UCITS are required to publish the document in a standard format, as provided in this Guidance Note.

The SP may be attached to the full prospectus, as a removable part of it. Umbrella UCITS can publish an individual SP for each sub-fund or a single SP which includes details of all sub-funds. Where an SP is published for each sub-fund, reference must be made to the other sub-funds in the umbrella.

An SP may be published for individual share classes within a UCITS or within a sub-fund of an umbrella UCITS, provided that disclosure is made in the SP that other share classes may exist.

The SP must contain the information set out in Schedule 4 to the Regulations. It must contain clear, concise language which will be easily understood by the average investor. While the length of an SP will generally be determined by the complexity or simplicity of the UCITS, it is expected that the SP will consist of no more than three A4 pages.

A template document is attached in Appendix 1. The format and content of the template document must be adhered to by each UCITS. Appendix 1 also contains a sample SP to assist in the preparation of an SP.

## **Template document**

The following provides guidance on the completion of each section of the template.

### **Brief presentation of the UCITS**

A brief description of the UCITS, to include the following information:

- Name of UCITS (and sub-funds if applicable);
- Form in law e.g. open-ended investment company with variable capital;
- Date of authorisation and date of incorporation where relevant;
- A statement that it is authorised by the Irish Financial Services Regulatory Authority (“the Financial Regulator”);
- Expected period of existence (if applicable);
- Base currency of the UCITS (and sub-funds if applicable).

### **Investment Objective**

A short definition to provide a precise description of the outcomes sought by investing in the UCITS, e.g. long-term capital growth, current income. It should include details of any guarantees offered by third parties to protect investors' capital. Where the UCITS intends to track an index this should be clearly stated together with information on the relevant index and the degree of tracking to be pursued.

### **Investment Policy**

A description of the UCITS investment policy to include the following, where relevant:

- The main categories of financial instruments e.g. bonds, equities, other collective investment undertakings, cash deposits, money market instruments, financial derivative instruments;
- References to bonds should indicate whether they are corporate or government, their duration and rating;
- Information in relation to any specific focus of investment, for example concentration in any industrial, geographic or emerging markets area;
- Where the UCITS may use financial derivative instruments, an indication of whether this is for hedging or investment purposes;
- A statement as to whether the UCITS is actively or passively managed. (If the UCITS adopts a tactical asset allocation strategy with high frequency portfolio adjustments, this should be disclosed);
- An indication of the strategy to be followed in the case of index tracking UCITS. Where the UCITS may have exposure to a single issuer in excess of 10% of net assets, as permitted by the Regulations, this should be clearly stated. A UCITS should provide appropriate information for investors in the simplified prospectus, if the limit for investment in shares and/or debt securities issued by the same body is raised above 20% and to a maximum of 35% for a single issuer, in accordance with Regulation 49A (2) of the Regulations, in order to justify the exceptional market conditions.

### **Risk Profile**

The following statements **must** be included:

- The value of investments may fall as well as rise, and investors may not receive back the amount invested;
- A more detailed description of the risk factors that apply to the UCITS is set out in the full prospectus.

A brief and easily understandable description of all relevant and material risks associated with the investment policy should be provided. These risks should be

assessed on the basis of impact and probability and should only be included where they are likely to have a significant impact on investor return. The description can include, *inter alia*, the following types of risk:

- Market risk, including risks related to a concentration of assets or markets;
- Credit risk;
- Settlement risk;
- Liquidity risk;
- Exchange or currency risk;
- Custody risk.

Where relevant and material, reference should also be made to:

- Performance risk, including the variability of risk levels depending on individual fund selections, and the existence, absence of, or restrictions on any guarantees given by third parties;
- Risks to capital, including potential risk of erosion resulting from withdrawals/cancellations of units and distributions in excess of investment returns;
- Exposure to the performance of the provider/third-party guarantor, where investment in the product involves direct investment in the provider, rather than assets held by the provider;
- Inflexibility, both within the product (including early surrender risk) and constraints on switching to other providers;
- Inflation risk;
- Lack of certainty that environmental factors such as a tax regime will continue to apply.

A prominent statement is required where the net asset value of a UCITS is likely to have a high volatility due to its portfolio composition or the portfolio management techniques employed. Additional information may be required for specific categories of UCITS in accordance with paragraph 14 of Notice UCITS 6.

In order to avoid conveying a misleading image of the relevant risks, the information items should be presented so as to prioritise, based on scale and

materiality, the risks so as to better highlight the individual risk profile of the UCITS.

### **Performance Data**

Past performance data must be presented using a bar chart showing annual returns for the last ten full consecutive years. Where the UCITS has been in existence for a shorter period, but at least one full year, information should be provided for all available years. Returns should be calculated net of tax and charges. A statement should be included that performance data does not include subscription and redemption charges.

If the UCITS is managed according to a benchmark, or the payment of a performance fee is dependent on a benchmark, a comparison between the performance of the UCITS and the performance of the benchmark should be included in the same bar chart.

The cumulative average performance of the UCITS over specific periods of time e.g. 3, 5, 10 years must also be presented. Where relevant a comparison should be made with the cumulative average performance of any benchmark used.

A risk warning must also be included to the effect that past performance is not necessarily an indicator to future performance.

### **Profile of a Typical Investor**

Briefly describe the characteristics of a typical investor for whom the UCITS might be expected to be appropriate in terms of a time horizon, tolerance for volatility, tax considerations, etc.

### **Distribution Policy**

Indicate whether income is distributed or accumulated and state when and how distributions are made.

### **Fees and Expenses**

A distinction must be made between those fees paid directly by investors, for example, subscription/redemption charges, and those fees paid out of the UCITS assets, for example, annual management fees. The fees charged and the basis of calculation must be disclosed. Where out of pocket expenses of parties are also paid by the UCITS this must be stated.

Where different fees are charged to individual sub-funds, these should be disclosed separately, if possible in tabular format.

Where there are differences in fees and expenses across classes, these should be disclosed separately in the SP together with a statement that the objective criteria (e.g. the minimum subscription), on which these differences are based, are available in the full prospectus.

#### **◇ Total Expense Ratio (“TER”)**

In addition, the UCITS is required to publish a TER which should be calculated at least once a year on an ex-post basis (i.e. based on the actual costs charged to the UCITS), by reference to the UCITS fiscal year. It may also be calculated for other time-periods. The SP should include a clear reference to an information source (e.g. the UCITS website) where the investor may obtain previous years TER figures.

The TER is equal to the ratio of the UCITS total operating costs to the average net asset value. Total operating costs are all the expenses deducted from the UCITS assets and are usually shown in a UCITS statement of operations for the relevant fiscal period<sup>1</sup>. The gross value of expenses should be used i.e. on an “all taxes included” basis. The average net asset value is calculated using the net asset value as at each valuation point.

Any circumstances which could lead to misleading figures must be taken into account. Tax relief should not be included. The calculation method of the TER

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<sup>1</sup> Total operating costs are taken from the audited accounts for the relevant fiscal period of the UCITS.

must be validated by the UCITS auditors. An umbrella UCITS must produce a separate TER for each sub-fund and for any share class with different fee structures.

Total operating costs include all legitimate expenses of the UCITS, whatever their basis of calculation (e.g. flat-fee, asset based, transaction-based), such as:

- Management fees and expenses (including performance fees). Performance fees must be disclosed separately with other management fees;
- Administration fees and expenses;
- Custody fees and expenses;
- Audit fees;
- Transfer agency fees and expenses;
- Distribution or marketing costs;
- Legal fees;
- Registration and regulatory fees;
- Remuneration payable to the management company or investment manager (or other party) under any fee-sharing arrangement<sup>2</sup>.

Total operating costs do not include:

- Transactions costs; (however details of any available transaction costs should be separately disclosed)
- Interest on borrowings;
- Payments in relation to financial derivative instruments;
- Subscription/redemption charges or other fees paid directly by the investor;
- Soft commissions<sup>3</sup>.

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<sup>2</sup> Fee-sharing agreements include arrangements often described as commission rebates, retrocessions and hard commissions. Generally these are not permitted and rebated commissions must be paid into the assets of a UCITS. The Financial Regulator permits that a manager, or investment manager, may operate a directed brokerage programme, subject to certain conditions. The costs involved must be included in the TER. The SP must direct investors to the full prospectus for full information in relation to this matter.

<sup>3</sup> Soft commission refers to any economic benefit (other than clearing and execution services) e.g. research services provided by a broker/dealer to a UCITS in connection with the payment of commissions on transactions carried out with that broker/dealer. The SP must direct investors to the full prospectus for full information in relation to this matter.

### **UCITS investing in other Collective Investment Schemes (“CIS”)**

A UCITS which invests more than 20% of net assets in other CIS must produce a synthetic TER. A synthetic TER is equal to the ratio of:

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

Where the underlying CIS does not publish a TER the SP should disclose:

- The impossibility of calculating a synthetic TER, as above, in relation to investment(s) in the CIS;
- The maximum management fee charged to the underlying CIS;
- A synthetic figure of total expected costs, by calculating
  - a truncated synthetic TER incorporating the TER of each of those underlying CIS for which the TER is calculated as above, weighted on the basis of the UCITS investment proportion, and
  - by adding, for each of the other underlying CIS, the subscription and redemption fees plus the best available upper-bound assessment of TER eligible costs. This should include the maximum management fee and the last available performance fee for that CIS, weighted on the basis of the UCITS investment proportion.

### **◇ Portfolio Turnover Rate**

A portfolio turnover rate must be included in the SP to provide an indication of the level of transactions carried out during the relevant period. The portfolio turnover rate should be calculated for the same period as the TER as follows:

$$\mathbf{[(Total\ 1 - Total\ 2)/M] * 100}$$

Purchase of securities + Sale of securities = Total 1

Subscriptions of units + Redemptions of units = Total 2

Monthly average of total net assets (i.e. average of daily or weekly NAVs) = M



Portfolio management techniques (e.g. stock lending and repurchase agreements) are not included as a purchase or sale of securities for the purposes of the above calculation.

The SP should include a clear reference to an information source (e.g. the UCITS website) where the investor may obtain previous years' portfolio turnover rates.

### **Taxation**

Refer to the Irish taxation regime applicable to the UCITS. Individual investors should be recommended to consult their professional advisers in relation to the taxation treatment of income and/or capital gains for their own individual situation.

### **Publication of Share Price**

Provide relevant information in relation to where and when dealing prices are published, for example, the relevant newspaper(s) or website details.

### **How to Buy/Sell Units**

Identify the party who will process subscription, redemption and switching orders from investors and frequency of the dealing arrangements. Where applicable any minimum subscription, or regular savings plan available to investors should be disclosed.

### **Additional Important Information**

All relevant parties to the UCITS must be identified i.e. manager, fund administrator, trustee, investment manager, investment adviser, promoter, auditor. In the case of a self-managed investment company, the directors of the company must be identified. Include details of where additional information in relation to the UCITS, including copies of the full prospectus, annual and half-year reports may be obtained free of charge should also be included. Where the UCITS is to be listed a statement to this effect may be provided.

## **Filing Requirements**

An SP must be submitted to the Financial Regulator prior to the authorisation of each UCITS. A letter, from the directors of the management company or investment company, or from the legal advisers to the UCITS, must accompany the SP, confirming the following:

- The SP complies with the provisions of the Regulations and with this Guidance Note;
- The information in the SP is consistent with the content of the full prospectus; and
- The SP does not contain any information which is not included in the full prospectus, other than performance, TER and portfolio turnover data;

The SP must be kept up-to-date. As performance, TER and portfolio turnover data must be calculated on at least an annual basis, the SP must also be up-dated annually. The TER, portfolio turnover rate and any performance data may be attached to the SP as a separate paper.

The amended SP must be filed in accordance with the requirements set out above. It is expected that the SP will be submitted with the annual accounts for the UCITS.

## Appendix 1

### SIMPLIFIED PROSPECTUS - TEMPLATE

Name

Date

#### Brief presentation of the UCITS

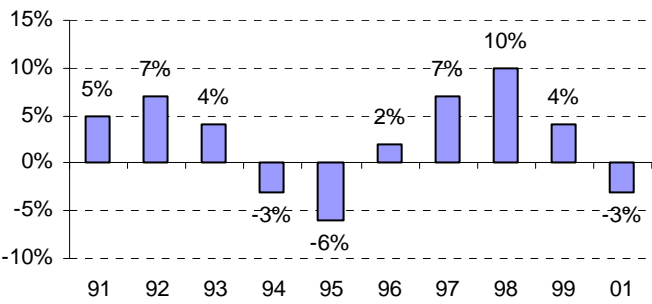
<b>Investment Objective:</b>	
<b>Investment Policy:</b>	
<b>Risk Profile:</b>	
<b>Performance Data:</b>	
<b>Profile of a Typical Investor:</b>	
<b>Distribution Policy:</b>	
<b>Fees and Expenses:</b>	
<b>Taxation:</b>	
<b>Publication of Share Price:</b>	
<b>How to Buy/Sell Units/Shares:</b>	
<b>Additional Important Information:</b>	

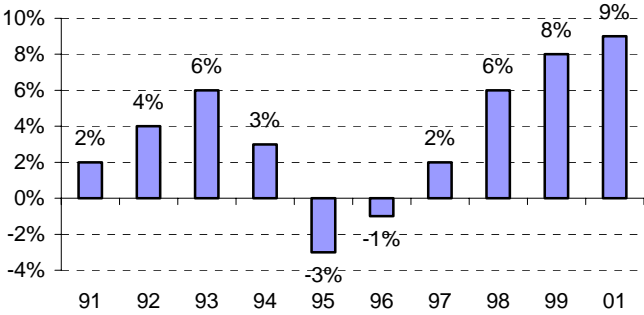
**US FUNDS PLC**  
**SIMPLIFIED PROSPECTUS**  
25 January 2004

This Simplified Prospectus contains key information in relation to US Funds plc, which is an open-ended umbrella investment company with variable capital incorporated in Ireland on 21 December 1990 and authorised on 29 December 1990 by the Irish Financial Services Regulatory Authority, under the European Communities (UCITS) Regulations, 2003, as amended. The company has two sub-funds, US Equity Fund and US Bond Fund.

Potential investors are advised to read the full Prospectus dated 30 August 2003 before making an investment decision. The rights and duties of the investor as well as the legal relationship with the company are laid down in the full prospectus.

The base currency of each sub-fund is US Dollars.

<b>Investment Objective:</b>	<p>US Equity Fund - The objective of the sub-fund is to achieve long-term capital growth.</p> <p>US Bond Fund - The objective of the sub-fund is to enhance current income while safeguarding capital.</p>								
<b>Investment Policy:</b>	<p>US Equity Fund – The objective of the sub-fund is achieved by investing mainly in US equity and equity related securities of small and medium sized companies listed or traded on regulated Exchanges in the US. The fund may also invest in liquid assets such as money market instruments.</p> <p>US Bond Fund – The objective of the sub-fund is achieved by investing in a diversified portfolio of investment grade medium term fixed-income securities issued by large US companies and listed or traded on US regulated markets.</p> <p><b>Each fund may use certain financial derivative instruments including options and currency forwards to hedge against market and exchange rate risk.</b></p>								
<b>Risk Profile:</b>	<p>The value of investments may fall as well as rise, and investors may not receive back the amount invested. A complete description of risk factors is set out in the full prospectus.</p> <p>The investments will be subject to market fluctuations which are mainly influenced by changes in interest rates.</p>								
<b>Performance Data</b>	<p style="text-align: center;"><b>US Equity Fund - Total Annual Return 1991 - 2001</b></p>  <table border="1" data-bbox="1197 1579 1452 1769"> <thead> <tr> <th colspan="2">Cumulative Average Performance:</th> </tr> </thead> <tbody> <tr> <td>Past 3 Years</td> <td>3.7%</td> </tr> <tr> <td>Past 5 Years</td> <td>4.0%</td> </tr> <tr> <td>Past 10 Years</td> <td>2.7%</td> </tr> </tbody> </table>	Cumulative Average Performance:		Past 3 Years	3.7%	Past 5 Years	4.0%	Past 10 Years	2.7%
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	<p style="text-align: center;"><b>US Bond Fund - Total Annual Return 1991 - 2001</b></p>  <p><b>Cumulative Average Performance:</b></p> <p><b>Past 3 Years</b>      <b>7.7%</b></p> <p><b>Past 5 Years</b>      <b>4.8%</b></p> <p><b>Past 10 Years</b>    <b>3.6%</b></p> <p><b>Please note that past performance is not necessarily a guide to the future performance of the UCITS</b></p>																								
<p><b>Profile of a Typical Investor:</b></p>	<p>US Equity Fund – Suitable for investors seeking capital growth over a 5 to 10 year period and who are prepared to accept a moderate level of volatility.</p> <p>US Bond Fund – Suitable for investors seeking current income over a 5 year time horizon with a moderate level of volatility.</p>																								
<p><b>Distribution Policy:</b></p>	<p>US Equity Fund – The sub-fund will accumulate all income and gains and does not intend to pay dividends.</p> <p>US Bond Fund – Dividends will be paid annually in March out of net income and will automatically re-invested in the purchase of additional shares in the sub-fund.</p>																								
<p><b>Fees and Expenses:</b></p>	<p><b>Shareholders Expenses</b></p> <table border="0"> <tr> <td>Subscription Fee</td> <td style="text-align: right;">5%</td> </tr> <tr> <td>Redemption Fee</td> <td style="text-align: right;">1%</td> </tr> <tr> <td>Switching Fee</td> <td style="text-align: right;">none</td> </tr> </table> <table border="0"> <thead> <tr> <th style="text-align: left;"><b>Annual Operating Expenses</b></th> <th style="text-align: left;"><b>US Equity Fund</b></th> <th style="text-align: left;"><b>US Bond Fund</b></th> </tr> </thead> <tbody> <tr> <td>Management/Custody/Admin Fee</td> <td>3% of nav</td> <td>2% of nav</td> </tr> <tr> <td>Investment Management Fee</td> <td>1.5% of nav</td> <td>1.5% of nav</td> </tr> <tr> <td>Performance Fee</td> <td>None</td> <td>None</td> </tr> </tbody> </table> <p>Out of pocket expense of Manager, Custodian, Administrator and Investment Manager are paid out of the funds assets.</p> <table border="0"> <tr> <td>Total Expense Ratio</td> <td style="text-align: right;">2.35%</td> <td style="text-align: right;">1.85%</td> </tr> <tr> <td>Portfolio Turnover Rate</td> <td style="text-align: right;">15%</td> <td style="text-align: right;">10%</td> </tr> </table>	Subscription Fee	5%	Redemption Fee	1%	Switching Fee	none	<b>Annual Operating Expenses</b>	<b>US Equity Fund</b>	<b>US Bond Fund</b>	Management/Custody/Admin Fee	3% of nav	2% of nav	Investment Management Fee	1.5% of nav	1.5% of nav	Performance Fee	None	None	Total Expense Ratio	2.35%	1.85%	Portfolio Turnover Rate	15%	10%
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<p><b>Taxation:</b></p>	<p>The company is resident in Ireland for tax purposes and is not subject to Irish taxation charges on income or capital gains. No Irish stamp duty is payable on the issue, redemption or transfer of shares in the company.</p> <p><b>Shareholders and potential investors should consult with their professional advisers in relation to the tax treatment of their holdings in the company.</b></p>																								
<p><b>Publication of Share Price:</b></p>	<p>The net asset value per share of each fund is published daily in the Financial Times and is available from the office of the administrator.</p>																								
<p><b>How to Buy/Sell Units/Shares:</b></p>	<p>You can buy, sell and switch shares on a daily basis directly from:</p> <p>Fund Services (Ireland) Limited  IFSC  Dublin 1  Tel 00 353 1 666666  Fax 00 353 1 666661  Email deal@ifs.com (Hours of business 9am to 5pm (Irish Time) Mon – Fri)</p>																								

<b>Additional Important Information:</b>	<table><tr><td>Management Company</td><td>ABC Asset Management (Ireland) Limited</td></tr><tr><td>Custodian</td><td>XYZ Bank plc</td></tr><tr><td>Administrator</td><td>Fund Services (Ireland) Limited</td></tr><tr><td>Investment Manager</td><td>ABC Investment Management Limited</td></tr><tr><td>Promoter</td><td>ABC Investments Inc.</td></tr><tr><td>Auditor</td><td>AAA Partners</td></tr></table> <p>Additional information and copies of the full prospectus, the latest annual and half yearly reports may be obtained (free of charge) from:</p> <p>US Funds plc IFSC Dublin 1 Tel 00 1 353 666666 Fax 00 1 353 666661 <a href="http://www.usfunds.com">www.usfunds.com</a></p>	Management Company	ABC Asset Management (Ireland) Limited	Custodian	XYZ Bank plc	Administrator	Fund Services (Ireland) Limited	Investment Manager	ABC Investment Management Limited	Promoter	ABC Investments Inc.	Auditor	AAA Partners
Management Company	ABC Asset Management (Ireland) Limited												
Custodian	XYZ Bank plc												
Administrator	Fund Services (Ireland) Limited												
Investment Manager	ABC Investment Management Limited												
Promoter	ABC Investments Inc.												
Auditor	AAA Partners												