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Guidelines for Preparing the Key Investor Information Document

1. Guidelines for Preparing the Key Investor Information Document (hereinafter – Guidelines) are drawn up based on the Guidelines for the Transition from the Simplified Prospectus to the Key Investor Information Document (CESR/10-1319) issued by the Committee of European Securities Regulators on 20.12.2010, also CESR's Guide to Clear Language and Layout for the Key Investor Information Document (CESR/10-1320*)*, Guidelines for Selection and Presentation of Performance Scenarios in the Key Investor Information Document for Structured UCITS (CESR/10-1318) and Guidelines for CESR's template for the Key Investor Information Document (CESR/10-1321). The Guidelines cover requirements recommended to comply with in preparing the key investor information (hereinafter - KII) referred to in Section 56 (1) of the Law on Investment Management Companies. It is recommended to apply the Guidelines to investment management companies (hereinafter – the company) registered in Latvia or in other Member State that manage operation of open-end investment fund (hereinafter – the investment fund) in Latvia.

2. The company in preparing KII shall use a template enclosed in the Annex to the Guidelines.

3. The terms used in Guidelines conform to the terms used in the Law on Investment Management Companies, Regulations (No 242) on the Calculation of Total Exposure and Counterparty Risk for Open-end Investment Fund of 11.11.2011 issued by the Financial and Capital Market Commission (hereinafter – the Commission) and Regulations (No 240) for Preparing the Key Investor Information Document of 11.11.2011 issued by the Commission.

1. Language and Layout used in KII
1.1. Stylistic Criteria of Language

4. Plain and clear language shall be used when preparing KII, avoiding the use of complicated terminology. The text shall be written to avoid any misinterpretation or misunderstanding regarding the aims of an investment, related risks and charges.

5. Plain and clear language means the layout of the essential information in a way that shall enable a retail investor with a low or average financial knowledge level to understand it at first reading and in the same sense that the author of the document meant it.

6. KII text shall avoid using of:

6.1. complex sentence constructions to prevent occurrence of any situations where an investor is misled by the text;

6.2. the style usually used in preparing the fund documentation;

6.3. multiple meaning words. Investment industry experts traditionally use not only specific vocabulary but also numerous terms that could be grasped by an average retail investor in a different meaning than meant by an investment management company thus misleading an investor.

7. It shall be required to avoid specific vocabulary (for instance, "negative growth ", "issue", "buy-back") that may mislead investors. To prevent such situations, descriptive explanations of the meaning shall be used in the text. If, however, any specific vocabulary is used in the text, an explanatory note shall be put into brackets or an explanation in a footnote to the page when specific vocabulary occurs for the first time.

8. KII text shall be made up of short sentences, up to 25 words. Longer sentences shall be broken up into at least two separate sentences.

1.2. Text Layout

9. Following rules shall be complied with in drawing up the KII text:

9.1. easy readable typeface shall be used, for instance, *Arial* (or similar sans serif font) or *Times New Roman* (or similar serif font);

9.2. characters of easy readable size shall be used in due proportion with the line length and spacing. It is recommended to keep to 50-75 characters (including spaces) in a line of 10-point type. Newspaper-type column layout or wide margins shall be also used;

9.3. typeface may vary, but using the full width of A4 paper, at least 11pt for serif fonts and 10pt for sans serif fonts shall be used. For narrower columns, smaller type size may be used;

9.4. spaces between lines shall be in due proportion with the type size;

9.5. to accentuate headings and sub-headings, emboldening or shading, colour or different type sizes or indentions shall be used.

10. Following rules shall be complied with in designing the page layout:

10.1. compact paragraphs shall be created;

10.2. newspaper columns may be used;

10.3. bulleted text instead of continuous text where appropriate;

10.4. clear gaps between sections shall be added.

11. When using colours and shading, it shall be taken into account that KII may be photocopied or downloaded in black and white; therefore colours shall be used sparingly to ensure enough contrast between the text and its background. It is recommended to use shading to provide that the text is darker and the background – paler than the text.

2. Design of KII Sections

2.1. Section: "Title and Introduction"

12. Requirements for the content of the section " Title and Introduction" are provided for in Article 4 of the European Commission Regulation (EU) No 583/2010 of 01.07.2010 implementing Directive 2009/65/EC of the European Parliament and of the Council as regards key investor information and conditions to be met when providing key investor information or the prospectus in a durable medium other than paper or by means of a website (hereinafter – the Commission Regulation No. 583/2010).

13. The title "Key Investor Information" shall appear prominently to attract attention of a potential investor. Explanatory statement shall be included in the instruction as required in Article 4, Paragraph 3 of the Commission Regulation No. 583/2010, as well as identification data of the fund and sub-fund (name, code number and name of investment management company).

2.2. Section: "Objectives and Investment Policy"

14. Requirements for the content of the section "Objectives and Investment Policy" are provided in Article 7 of Commission Regulation 583/2010.

15. The purpose of this section is to clarify the aims and projected growth of the fund as well as the ways how the fund intends to achieve the set aims. Where appropriate, description of the fund aims and investment policy shall be put into a single paragraph. However, if the information forms a large block of text the section may be broken up into two paragraphs or into paragraphs under sub-headings.

16. In writing the section "Objectives and Investment Policy" it is advisable:
16.1. to avoid redundancy, removing unnecessary phrases (e.g. "in accordance with existing regulatory requirements" or "in accordance with procedure prescribed in the prospectus");
16.2. to personalize style, for instance, addressing the potential investor by using "you" instead of "investor" and "we" instead of "investment management company";
16.3. to avoid stating abstract ideas (for instance, "the aim is to achieve continuous and steady growth in the fund's value").

17. It is recommended not to copy the text of prospectus unless it is written in plain and clear language. The approach to KII by the author shall depend on the length and complexity of specific fund prospectus. If however, even considering above, the text is rather long, information provided shall be critically assessed. For example, if a wide range of fund investment instruments are referred to in the text, materiality of above information shall be assessed based on the previous and projected activities.

2.3. Section: "Risk and Reward Profile"

18. Requirements for the content of the section "Risk and Reward Profile" are provided in Article 8 of Commission Regulation 583/2010.

19. The purpose of this section is to give an explanation about an impact of potential loss or growth in the investment value. Two main elements are dealt with in the section – the

synthetic indicator and explanation of risks that are not covered by determining of synthetic risk and reward indicator. Possibilities of a capital increase or loss shall be clarified to the investor in this section.

20. Where applicable, it shall be explained that the synthetic indicator is not a measure of the risk of capital loss but is a measure of the previous fluctuations in fund's value. For new funds, explanation of determining of the synthetic indicator shall be given, but for structured funds it shall be explained that the indicator may reflect the risk of potential capital loss at the end date.

21. Risks that are not adequately reflected by the synthetic indicator shall be explained:

21.1. as risk for reward.

Since the section covers both risk and reward, a list of all the potential losses and "bad things" should not be added. To have a full conception of the necessity to take risks, a brief explanation shall be provided for an investor;

21.2. considering risk as uncertainty.

Only those uncertainties shall be described which may affect the value of investment. Probability to lose money which is predictable and depends on the activities of an investor shall not be regarded as risk, for instance, commission fee for repurchase of fund units. If consequences of investor action are material, an explanation regarding them shall be included in another KII section pursuant to the context. For instance, the section "Objectives and Investment Policy " shall explain a capital loss probability if a structured fund is cashed before the date set in the prospectus, or the section "Charges" shall explain a potential capital decrease because of commission fee in case of early exit charge;

21.3. impact of guarantees or fund investment (capital) protection.

Explanation shall be provided as to how the risk is modified by documentary completed guarantees or existing fund capital protection measures (if any) as well as early cash-in the investment.

22. Risks shall be assessed on their impact and probability. Indicating the risk, a brief statement regarding specific implications to the investor shall be given. Assessment of risk's materiality could be helpful for a potential investor, to what extent the fund is being exposed to a particular risk, probability of risk materialization and potential risk impact. Explanations on the risk mitigating methods shall be helpful for the investor in understanding the risk impact and occurrence probability.

23. Risks that are reflected in the synthetic indicator and which are not reflected shall be identified in the analysis of the volatility data over the last five years. Counterparty, default, liquidity, operational and emerging market risks are the typical risks that may not be reflected in the synthetic indicator.

24. Where material, an explanation of the risk and its potential impact shall be explained, bearing in mind that fund investments shall be liquid enough to meet the requirement that fund units must be cashed in quickly. Technical name of risk not always enables the investor to understand the essence of the risk therefore clear descriptions of the specifics and impact of each risk shall be given using bullets or indents for each risk.

25. Immaterial risks shall not be included. Full details of risks shall be available in the fund prospectus guided by KII references.

26. Rather than itemizing separately, the risks shall be categorized by the types of assets or investment strategy, for instance, by grouping the risks related to investments in bonds or emerging markets.

27. Explanation on the impact of taxes shall be provided in the section "Practical Information", not in the section "Risk and Reward Profile".

2.4. Section: "Charges"

28. Requirements for the content of the section "Charges" are provided in Articles 10, 11, 12, 13 and 24 of Commission Regulation 583/2010. Charges information shall be indicated in a table in accordance with provisions of Annex II to the Commission Regulation 583/2010. Each of charges shall be explained in a table and it is recommended:

28.1. to state that detailed charges information is available in the fund prospectus, if required;

28.2. to state the maximum amounts of the entry and exit charges regarding commission fee for the issue of fund units. In addition, reference to the fund management company or a distributor of fund units may be included for clarifying more exact amounts of charges;

28.3. if the ongoing charges are taken from the fund assets rather than incomes and it may have a material impact, it shall be explained in this section as a risk;

28.4. to specifically note if a charge for switching funds differs from an ordinary charge for buying fund units;

28.5. if no charge is payable under a particular sub-heading of table (e.g. "Charges taken from the fund under specific conditions"), in the relevant box shall be indicated "none" or "not applicable".

2.5. Section: "Past Performance"

29. Requirements for the content of the section "Past Performance" are provided in Articles 15, 16, 17, 18 and 19 of Commission Regulation 583/2010 (not required for structured funds).

30. The bar chart included in this section shall not occupy more than a half of an A4 page, supported by prominent statements. Criteria for the bar chart design are provided in Annex III to Commission Regulation No. 583/2010.

2.6. Section: "Practical Information"

31. Requirements for the content of the section "Practical Information" are provided in Articles 20 and 25 (information on sub-funds), Article 27 (information on the classes of fund units) and Article 34 (information on feeder structures) of Commission Regulation 583/2010.

32. Information helpful for an investor to understand KII shall be included in this section.

33. Final statement shall be included in the section emphasizing the precision of key investor information wording and encouraging an investor to thoroughly revise the content.

3. Specific Rules for Structured Funds
3.1. Selection of Scenarios

34. In explaining potential scenarios for operation of structured funds the company shall comply with an overriding principle stating that information must be fair and clear and it must not be misleading.

35. For presenting potential reward in the KII document the company shall select at least three performance scenarios to reflect how the previously set return payable to the fund investors (hereinafter also – pay-off) vary in different market conditions.

36. Fund performance scenarios shall reflect:
36.1. market conditions in which the formula for expected return of the fund generate adverse, favourable and medium outcome for the investor;
36.2. specific features of formula used by a structured fund, for instance, whether potential return is pegged to the capped performance or the amount of fund's leverage ratio;
36.3. circumstances in which certain aspects of formula may have either favourable or adverse impact on final returns.

37. In view of specific features of the formula and other conditions, e.g. knock-out feature or guarantee with conditional floor and other, more than three scenarios may be required to adequately describe potential outcome.

38. To reflect favourable and adverse scenarios, they shall be based on reasonable assumptions about future market conditions and price movements.

39. An adverse scenario shall be always dealt with firstly.

40. Selected scenarios shall have an explanation of advantages and shortcomings of the formula if such information is not included in the section "Risk and Reward Profile".

41. Additional information that is consistent with statements in other KII sections shall be provided in the scenarios.

42. Scenarios shall be updated in such cases:
42.1. at least on a yearly basis;
42.2. if market conditions have changed considerably since the launch of fund operation;
42.3. where necessary to reflect time dependency on the amount of return for pay-off to the fund investors as set previously, for instance, where an anniversary date set in the fund prospectus has passed.

3.2. Presentation of the Scenarios

43. The scenarios shall be presented in the section "Illustrative Examples". A description shall make it clear that the scenarios are not forecasts and they may not have an equal probability of occurrence.

44. The scenarios shall be presented as either tables or charts depending on which manner more clearly presents characteristics of each structured fund.

45. Tables shall be appropriate where the investment strategy and the formula for pay-out to the investors may be easy explained or when the payout depends on the performance of a basket of shares.

46. Charts shall be appropriate where a table becomes complicated or where a payout scheme cannot be properly presented in the table, for instance, if it is path-dependent payout or based on the average performance of an index.

47. Usually returns in various scenarios shall be presented as annualised rate of growth (with an appropriate explanation) or capitalised or gross rate of growth.

48. To ensure comprehensibility and comparability of various charts, the illustrative examples shall avoid:

48.1. double scales;

48.2. artificially exaggerating the positive aspects of the fund pay-offs;

48.3. non-linear scales;

48.4. different scales depending on the scenario.

49. The narrative description shall explain that investors may sell their units before the end date but it shall include a clear statement warning about a possible capital loss because the value will not be calculated using the formula but will depend on the market value of financial instruments in the fund investment portfolio and shall explain the adjustments that will be applied at the time of calculation.

50. Illustrative examples are available in the Guidelines for Selection and Presentation of Performance Scenarios in the Key Investor Information Document for Structured UCITS (CESR/10-1318) issued by the Committee of European Securities Regulators. The document is available in English on the website of the European Securities and Markets Authority (ESMA) at (http://www.esma.europa.eu/index.php?page=document_details&from_title=Documents&id=7333).

3.3. Additional Requirements regarding Content of KII Section "Objectives and Investment Policy"

51. Requirements provided for in Article 36 of Commission Regulation No. 583/2010 shall be complied with in the KII section "Objectives and Investment Policy" in addition to the provisions referred to in Paragraph 2.2 of these Guidelines.

52. The company may use different formulas to calculate the amount of previously set return payable to the fund investors at the end of set term. The company shall ensure that the

formula (formulas) is (are) adequately explained and potential positive returns are not overemphasized.

53. In explaining the formula, it shall be made clear:

53.1. that the fund's structure will be different from the risk and reward profile in comparison with direct investments in the same underlying assets;

53.2. that the risk reduction results in a reduced potential return. Therefore simultaneous use of notions as "performance" and "return" with such notions as "security" should be avoided;

53.3. that the term "guarantee" should be avoided if there is no legally enforceable guarantee in order not to mislead potential investors about actual security of their investments;

53.4. that if there is a risk of invested capital loss at any of the dates in the formula, it must be clearly indicated in the section "Objectives and Investment Policy" explaining that the invested capital is not guaranteed;

53.5. that if less than 100% of invested capital are guaranteed or protected such phrases as "partial guarantee applicable to 90% of the invested principal" should be avoided as they could be misunderstood by the investor. Instead it shall be clearly stated that the capital is not fully guaranteed or protected unless there is legally enforceable guarantee;

53.6. that if the fund's formula is pegged to an average performance of an index at 100% or it is pegged to the capped performance of the index, an explanation should be provided regarding the effect of the averaging or the capping;

53.7. that positive statements should be better used, e.g. "if the index falls by more than 30%" rather than "if the index performance is less than 30%".

4. Transition from the Simplified Prospectus to the KII Document

54. Providing KII may be launched for all investment funds under the management of the company either simultaneously or phased in through a transitional period as laid down in the Law on Investment Management Companies regarding introduction of the KII document. However, investors might be confused with the possibility to obtain both the simplified prospectus and the KII document for different funds in the same range. Therefore it is recommended that investment management companies consider carefully the phased adoption of KII.

55. In case the fund has been registered as a sub-fund of an existing fund the company may choose whether to provide a simplified prospectus or KII for that sub-fund.

56. The company that continues providing a simplified prospectus may carry out one or more revisions of the simplified prospectus. The company at its discretion may include the elements of KII, for instance, a synthetic indicator or a charge table.

57. If the company has launched marketing of fund units in other Member State under provisions of the Law on Investment Management Companies and the fund continues offering a simplified prospectus to investors in Latvia instead of KII, the fund may offer a simplified prospectus until the date when the KII document is registered with the Commission. When marketing the fund units in another Member State the company shall always ensure that the same documents (either a simplified prospectus or KII) are provided to investors (translated if necessary). This requirement shall be applicable to the funds that have already started the marketing of the fund units in another Member State until the date these Regulations take

effect, as well as to those who intend to launch the marketing of their fund units in a transitional period.

58. If a fund merger is proposed during a transitional period and a receiving fund still continues offering a simplified prospectus instead of KII, then the receiving fund may continue providing a simplified prospectus to the investors involved in a merger.

59. Provisions referred to in Paragraph 58 of these Guidelines shall apply also to master-feeder structure transactions. However, different information disclosure formats used by feeder and master funds could have result in confusion for investors. Where the home State(s) regulatory requirements of both funds allow the use of the simplified prospectus, it is recommended that the management companies of relevant funds reach an agreement to provide the same format for information disclosure for both the feeder fund and the master fund – either both of them provide the simplified prospectus or both provide KII. The master fund shall ensure the same type of documents to all of its potential investors thus preventing a situation that the feeder fund is provided with KII and all other investors with the simplified prospectus.

Deputy Chairman
of the Financial and Capital Market Commission J.Brazovskis