

REGULATION ON PRIVATE INVESTMENT FUND OPERATION

One. General Provision

1.1. The regulation is made for the purposes of setting requirements and ensuring its compliance in terms of Private Investment Fund management, its organizational structure, Fund assets, Fund investment activities, related information and is made for the purpose of regulating relations associated with Fund merger, acquisition and liquidation.

1.2. Private Investment Fund operation shall be complied with Civil Law, Company Law, Securities Market Law, Investment Fund Law, Law on Combating Money Laundering and Terrorism Financing, other applicable laws and regulations, this regulation and other regulations, legislations issued by the Financial Regulatory Commission of Mongolia.

1.3. "Governing Body" refers to Fund Manager appointed by the investment management company which is an entity provides asset management services to the investment fund under asset management agreement.

1.4. Private Investment Fund shall comply with the principles set out in Article 13.1 of Investment Fund Law in its operation.

1.5. Private investment fund shall have Board of Directors whereas the Private investment fund shall comply with 1.4 of this regulation.

Two. Unit holders' meeting of Private Investment Fund

2.1. The Governing Body of Private Investment Fund shall be its Unit holders' meeting where unit holders of the Fund which can be either individual or legal entity is entitled to participate in the Unit holders' meeting of Private Investment Fund.

2.2. Each unit certifies one voting right at the Unit holders' meeting of Private Investment Fund where each voting rights of unit holder shall be determined by the number of Units held in their ownership.

2.3. Power and authorization of Unit holders' meeting of Private Investment Fund shall be the same as specified in Article 62 of Company Law and other provisions related to authorization of Unit holders' meeting shall be determined in compliance with the Charter of the Fund.

2.4. Followings shall be included in the Charter of Private Investment Fund in terms of power and authorization of Unit holders' meeting:

2.4.1. Making decision to select Investment Management Company and establish an Asset Management Agreement;

2.4.2. Selecting Custodian, establish an Asset Custody Agreement;

2.4.3. If there is a Board of directors, terminating the power and authority of members of Board of directors prior to expiry of its operation term;

2.4.4. Determining the maximum rate of performance fee and promotional payment which shall be paid to Investment Management Company and Custodian;

2.5. Authority of Governing Body of Private Investment Fund shall be approved at the Unit holders' meeting where rights, obligations and scope of responsibilities of Governing Body shall be defined by the agreement made with Governing Body according to decision of unit holders' meeting.

2.6. All the relations that involve convening the Unit holders' meeting of Private Investment Fund and decision making shall apply to the relevant provisions of Company Law.

2.7. In the case of Unit holders' meeting of Private Investment Fund was not convened within the period specified in the article 59.4 of Company Law, it shall be deemed that authority of Board of directors and Governing Body of such Fund be terminated starting from the original day of such meeting and all agreements, discussion made from the Unit holders' meeting shall become invalid.

2.8. Investment Management Company shall be responsible for providing the following documents available to Unit holders of the Fund prior to convene Unit holders' regular meeting of Private Investment Fund:

2.8.1. annual report of Private Investment Fund;;

2.8.2. auditor's opinion on annual financial statements;

2.8.3. annual report on asset custody service provided by Custodian;

2.8.4. annual report on asset management services provided by Investment Management Company;

2.8.5. information on investment fund operating costs and salary expenses;

2.8.6. other documents specified in Investment Fund's Charter.

2.9. Unit holders of Private Investment Fund may request to convene extraordinary general meeting of unit holders from Governing Body and Board of directors of the Fund at any time and shall submit a request including the agenda of discussion topics and date of the meeting.

2.10. The Private Investment Fund shall be fully responsible for all the costs associated with convening the unit holders' meeting of the Fund.

2.11. In following cases, an extraordinary general meeting of unit holders must be convened:

2.11.1. Net asset value of the Private Investment Fund decreased for 10 consecutive days, decreased by 40 or more percent compared to the first day of the fund operations;

2.11.2. Circumstances have arisen that may lead to transfer the authorization for asset management to another eligible Investment Management Company due to liquidation and bankruptcy of current Investment Management Company;

2.11.3. Circumstances have arisen that may lead to transfer authorization of asset management and contractual rights to another eligible Custodian;

2.11.4. Circumstances have arisen that may lead to select investment management company, organize activities related to transferring authorization of asset management agreement;

2.11.5. Circumstances have arisen that may lead selecting Custodian, organizing activities related to delegation of authorization of asset custody agreement;

2.11.6. Circumstances have arisen that may lead to internal audit committee of investment management company have requested to convene unit holders meeting;

2.11.7. other cases specified in the Charter.

2.12. The Governing Body of Private Investment Fund shall be responsible to make decision on convening the unit holders' meeting of the Fund within ten business days after the date of receipt of request from unit holders and Governing Body shall take necessary actions to safe keep investment funds' assets;

2.13. Unit holders of Private Investment Fund must be given at least 14 days or any longer period of notice and other necessary information related with the meeting via written notice or email.

2.14. Unit holders meeting shall be considered as valid when unit holders who hold at least 50% in price of all the Units in issue are present at the meeting.

2.15. If a quorum specified in 2.14 of this regulation is not present, the unit holders' meeting of Private Investment Fund shall be deemed as invalid and be postponed. In that case, it shall not be allowed to change the agenda of discussion topic given that further relations in connection with convening the postponed meeting shall be regulated by the Charter of the Fund.

2.16. The organizer of unit holders' meeting of Private Investment Fund must set out and make available to all unit holders the procedures for unit holders meeting and the conduct of such meetings including but not limited to, the following matters:

2.16.1. voting rights;

2.16.2 right to demand a poll;

2.16.3. proxies;

2.16.4. minutes;

2.17. Other matters related with unit holders' meeting of Private Investment Fund shall be regulated in detail by the Company Law, rules and regulations established by the unit holders' meeting.

2.18. The Fund Manager and employees appointed by the Investment Management Company and members of Board of directors are not entitled to vote in the unit holders' meeting of the Fund based on the number of Units held in their ownership. This provision shall not apply to the exercise of proxy voting at unit holders' meeting of the Fund.

Three. Private Investment Fund Assets and Investment Activities

3.1. Assets specified in article 26.1 of Securities Market Law shall be included in the investment fund assets.

3.2. Net Asset Value of Private Investment Fund shall be calculated in accordance with Regulation on Net Asset Value adopted by the Commission.

3.3. It may be decided not to include financial instruments permitted by law in the asset of investment fund based on the decision of unit holders meeting of Investment Fund.

3.4. A Private Investment Fund may include investment instruments in its assets compositions such as financially leveraged and other instruments those have benefit from short sale.

3.5. As specified in the article 25.1.11 of Investment Fund Law, Private Investment Fund may borrow by assets of Private Investment Fund as a pledge.

3.6. Unless otherwise provided by the Charter, Private Investment Fund shall be prohibited to issue a loan. This provision shall not apply to investing in debt instruments.

3.7. In accordance with article 27 of Investment Fund Law, Private Investment Fund assets shall be deposited in a separate account registered on its name from assets of Investment Management Company and unit holders' respectively given that accounting of assets shall be maintained separately.

3.8. Assets specified in 3.7 of this regulation must not be used for the purposes of repayment for any payment obligations to others on behalf of Investment Management Company and Fund Manager.

3.9. A Fund Manager shall have the following rights and obligations with regard to investment fund assets other than those specified in the agreement:

3.9.1. Regular monitoring on Funds assets against compliance of requirements of Commission and Fund's Charter;

3.9.2. Monitoring on Custodian activities in terms of Custodian's authority on the asset management agreement;

3.9.3. Organizing activities related to delegation of new Custodian, granting authorization of custody of assets to another Custodian without any risks and providing necessary guidance and management;

3.9.4. Monitoring all transactions related to investment fund assets and conduct risk prediction;

3.9.5. Delivering immediately a copy of all primary financial documents relevant to movements of investment fund assets to the certified public accountant and Custodian upon a receipt or issuance of such documents;

3.9.6. Not to perform any payment obligations out of the Funds' assets in the amount exceeds the limit specified in Fund's Charter, and agreement or any payments that are not indicated in these documents;

3.9.7. Providing sufficient information to unit holders to be used to make a decision in accordance with Fund's Charter and this regulation;

3.9.8. To comply with this regulation and other rules, requirements defined by the Commission;

3.10. It shall be prohibited that asset valuator of Private Investment Fund or an authorized entity conducts asset valuation to be a related party with common interests with investment management company, custodian, auditor and its employees.

3.11. A Fund Manager or eligible Custodian shall conduct asset registration of Private Investment Fund and report performance in its operational report.

3.12. If it is proven that a Fund Manager used Fund assets improperly with a purposes other than those specified in Fund's Charter and regulations, and his actions caused damage and losses to Funds assets, a Fund Manager shall be liable for any compensation for such loss and damages.

3.13. Unless otherwise specified in the Fund's Charter, if a depreciation of value of Fund assets and losses and damages caused from such depreciation has been caused by external factors such as social, economic, legal and other market factors, not by improper actions of Investment Management Company, Custodian or Governing Body, in that case such losses and damages shall be borne by the Fund assets.

3.14. Calculations methods on income, expenses, profit, salaries and other accounting records of Private Investment Fund assets must have been properly exercised in accordance with

regulation on Investment Fund Accounting, Guidelines on Financial Reporting adopted by the Commission and other relevant Accounting Laws and regulations.

3.15. Any authorization to act on behalf of the Private Investment Fund shall be granted to Investment Management Company or Fund Manager as long as unit holders of the Fund conclude an asset management agreement with Investment Management Company based on the regulation on asset management which is developed by such investment management company.

3.16. Not to hold 25% or more of Units issued by another investment funds (this will equally apply to investment fund registered in foreign country);

3.17. In the case of net asset value of each Units of the Fund is more than nominal value of such Units, a promotional payment shall be provided. This provision shall be specified in the Fund's Charter, regulations and other relevant agreements thereto.

Four. Private Investment Fund Reports

4.1. Governing Body of Private Investment Fund must produce one semi-annual and one annual report in order to provide unit holders of the Fund with up-to-date information on performance of Fund's operation and financial view.

4.2. Governing Body of Private Investment Fund must produce the required semi-annual and annual report to the Commission before following dates:

4.2.1. An annual report to be submitted within the first quarter after the end of each annual accounting period;

4.2.3. Semi-annual report within 20th of July of each accounting period.

4.3. Governing Body of private investment fund shall not intend to change its annual or semi-annual accounting period specified in 4.2 of this regulation.

4.4. Complete financial statements respective to dates of semiannual and annual report of Private Investment Fund shall be attached to the reports.

4.5. Annual and semi-annual reports specified in 4.1 of this regulation must contain the following:

4.5.1. investment fund's name, restatement of investment objectives, restatement of the policy for achieving the objectives, brief assessment of risk profile plus international practices and methods for risk evaluation and calculation;

4.5.2 information on investment activities and investment performance;

4.5.3. any other information which would enable Unit holders to make an informed judgment on structure of investment portfolio, valuation , any modifications, changes made into;

4.5.4. any other information which would enable Unit holders to make an informed judgment on the development of the activities of the Fund during this period and the results of those activities as at the end of the period;

4.5.5. review on financial performance of the Fund based on the financial statements for accounting periods specified in 4.4 of this regulation and review on comparative results described in 4.8 of this regulation;

4.5.6. Report of the independent Auditor;

4.5.7. Fund Manager's report for accounting period specified in 4.7 of this regulation;

4.5.8. Operational report of investment management company and internal audit's report;

4.5.9. Cost ratios at the end of accounting period, comparative results

4.5.10. Particulars of any material issues raised by the Custodian and the Governing Body if any; and

4.5.11. Others specified in the laws, regulations adopted by the Commission and Fund's Charter.

4.6. Fund Manager of Private Investment Fund must prepare the annual and semi-annual reports of the Fund in accordance with 4.1, 4.2 of this regulation and reports must:

4.6.1. be clear, complete, true and contain information for the relevant period

4.6.2. have original copy in Mongolian and a copy in English in case it is necessary;

4.6.3. be sent to the Commission prior to the date stated in 4.2 of this regulation.

4.7. Fund Manager must contain following information in its reports:

4.7.1. Review of the Fund's investment objectives, and its performance during the period;

4.7.2. Review of the Fund's investment activities and investment performance during the period;

4.7.3. Particulars of any fundamental change requiring prior approval by Unit holder meeting since the last report;

4.7.4. Particulars of any significant change requiring pre-event notification since the last report;

4.7.5. any other information which would enable Unit holders to make an informed judgment on the development of the activities of the Fund during this period and the results of those activities as at the end of that period;

4.7.6. any other information on actions to be taken in further, investment policy, and the results of those activities;

4.8. A comparative table for annual and semi-annual report of Private Investment Fund which shall set out followings over the last 3 years as specified in 4.5.5 of this regulation:

4.8.1. the highest and the lowest price of a Unit of each class in issue during each of those years; and;

4.8.2. net income distributed per units each year, taking account of any sub-division or consolidation of Units that occurred during that period;

4.8.3. total net asset value of Fund Assets at the end of each of those years;

4.8.4. explanations on indicators over the years for any changes made in the investment objectives of the private investment fund, brief description on reasons of changes thereto.

Five. Private Investment Fund Information

5.1. Private Investment Fund Information shall comprise of following information:

5.1.1. information to the Commission;

5.1.2. information to other government institutions in accordance with law.

5.2. Inside information of Private Investment Fund shall include information as per following:

5.2.1. information to be disclosed at unit holders meeting of the investment fund

5.2.2. information to be disclosed to the Investment Management Company;

5.2.3. any information to be disclosed to the Custodian, auditor, accountant, valuator, broker and dealers;

5.2.4. other information as specified in the Fund's Charter and relevant regulations,

5.3. unless otherwise provided by the Charter of Private Investment Fund, public information shall be disclosed either in electronic format or hard copy both in Mongolian and English .

5.4. General requirements for Private Investment Fund Information:

5.4.1. permission must have been granted by the Commission as specified in the article 29.2 of Investment Fund Law;

5.4.2. information as specified in the article 29.1 of Investment Fund Law;

5.4.3. any such information shall not to be disclosed such as false, misleading, not a subject of any provision which is unfairly prejudicial to the interest of unit holders;

5.4.4. A Fund Manager shall be liable to provide any relevant marketing information free of charge to its potential new customers;

5.4.5. others as specified in the laws and legislations.

5.5. A Fund Manager will be liable for any loss caused due to information disclosed to the public.

5.6. Private Investment Fund must disclose following information to the Commission:

5.6.1. semi-annual and annual reports of the Private Investment Fund ;

5.6.2. audited annual, semi-annual financial report and any changes that have been made to these reports;

5.6.3. registration of unit holders;

5.6.4. type and number of units held by unit holders;

5.6.5. opinion of internal audit committee of investment management company on private investment fund's activities;

5.6.6. information on securities transactions, trading, trading parties which is required to be disclosed by law ;

5.6.7. any changes, modifications made to the organization, internal regulations, and procedures of private investment fund

5.6.8. Any other information deemed as necessary by the Commission.

5.7. Following information shall be disclosed at unit holders' regular meeting of Private Investment Fund:

5.7.1 quarterly and annual report of the investment fund;

5.7.2. report on activities of Investment Management Company;

5.7.3. risk assessment conducted by the Fund Manager;

5.7.4. report on Custodian's operation and account statements;

5.7.5. agreement made with valuator, broker, and dealers;

5.7.6. Opinion of internal audit committee of investment management company;

5.8. A Fund Manager shall be responsible for accuracy of public information and inside information of private investment fund and shall be responsible for any risks that may arise from such information.

Six. Private Investment Fund Acquisition and Merger

6.1. Acquisition means any event that the rights and obligations of investment fund is transferred to another investment fund upon one of the Fund's operation has been terminated.

6.2. An authorized entity which decides undertaking of Investment Fund Acquisition shall be only the unit holders meeting of Fund where the decision must be approved by the majority of votes of unit holders.

6.3. A Fund Manager must present and discuss issues such as undertaking Fund Acquisition, Agreement on Fund Acquisition at unit holders meeting of Fund that is being acquired or the Fund that acquires the another one.

6.4. Followings shall be included in the draft regulation on investment fund acquisition

6.4.1. Procedures of converting securities of Fund that is being acquired to the securities of Fund that acquires the another one;

6.4.2. Procedures on delegation of new Custodian;

6.4.3. If both Funds has one investment management company, asset management agreement of the Fund that is being acquired shall be invalid while asset management agreement of the Fund that acquires the other one shall be re-established with the investment management company;

6.5. Regulation on Fund Acquisition, agreements, and other relevant documents prepared based on the decision made by unit holders meeting of each fund shall be submitted by the Fund Manager to the Commission.

6.6. If the documents stipulated in 6.5 of this regulation such as regulation, agreement, and other relevant documents do not violates any law, and is not likely to result in any material prejudice to the interest of the Unit holders of the Fund, the Commission shall consider such Fund as acquired and suspend licensing of the other Fund that is being acquired.

6.7. A Fund Manager must delist the name of investment fund from the registration of State registration of Legal entity and deliver the copy of document as a proof to the Commission.

6.8. Private Investment Fund shall bear all the costs associated with Fund Acquisition by its own fund.

6.9. Merger means any event that the rights and obligations of Funds transferring to the new investment fund upon two or more of investment fund's operation has been terminated.

6.10. Fund Managers of each investment fund that are merged shall present and discuss the following issues at unit holders meeting of each Fund respectively.

6.10.1. draft decision to undertake Fund Merger;

6.10.2. agreement specifies the terms and conditions and procedure for Fund Merger;

6.10.3. Charter of new Fund;

6.10.4. procedures specified conversion of assets of Fund to the assets of new investment Fund;

6.11. the Charter of new Private Investment Fund must be approved by the unit holders meeting and if there is a Board of directors, members of Board shall be selected by unit holders' meeting;

6.12. The Charter of new investment fund shall be approved by the unit holders meeting of investment fund and Board of directors shall be selected by the unit holders meeting also.

6.13. Voting rights applicable to unit holders meeting of Investment Fund shall be equal to those converted voting rights specified in 6.10.4 of this regulation.

6.14. Fund Managers of each Fund that are merged must submit relevant documents specified in 6.10.1-6.10.4 of this regulation.

6.15. Commission revokes license of Funds that are merged based on the receipt of documents.

Seven. Private Investment Funds registered in Foreign Countries

7.1. Investment Fund registered in foreign countries may undertake its operation in the territory of Mongolia as long as the Fund is registered with the Commission under the requirements and limits defined by the article 43.1 of Investment Fund Law.

7.2. Following criteria shall be met for Investment Funds registered in Foreign Countries to be registered with the Commission:

7.2.1. if it is required by Law, the Fund must be licensed to undertake investment activities by the applicable Financial Regulatory Authority;

7.2.2. must have financial capacity necessary to undertake investment activities in Mongolia ;

7.2.3. must have an effective agreement with authorized Custodian;

7.2.4. its authorized officer must be fit and proper;

7.2.5. must be complied with Investment Fund Law within the scope of its operation, disclose any such information specified by law and regulations to the Commission and investors in a timely basis.

7.3. Following documents must be included in the application to register Foreign Investment Fund with the Commission:

7.3.1. information relevant to legal entity of such investment fund, copy of certification issued in relevant jurisdiction;

7.3.2. notarized copy of license on investment activities granted by competent regulatory authority in its own jurisdiction;

7.3.3. copy of licenses in effect in order to attest the authorization of Custodian, investment management company and Fund Manager's activities ;

7.3.4. No objection letter from regulatory body in its own jurisdiction specified undertaking of investment activities in Mongolia, a copy of the decision made by the Governing Body of such Investment Fund ;

7.3.5. Statements made by any legal entity or person who provides management services to the investment fund;

7.3.6. Copy of audited financial statements of last quarter or statements as of year end of previous year.

7.4. The Commission must make its decision to register such Private Investment Fund within 30 business days after the receipt of complete application.

7.5. If Commission decides to register the Private Investment Fund, scope of activities, requirements and conditions shall be specified in the decision.

7.6. Investment Fund registered in Foreign Countries shall be eligible to launch its operation in Mongolia starting from the date that the Fund received a written response from the Commission.

Eight. Private Investment Fund Liquidation

8.1. Pursuant to Article 30.1 of the Investment Fund Law that may require a Fund to be liquidated in the following circumstances:

8.1.1. the expiration of any period of operation of which the Fund is to terminate; or

8.1.2. . it was decided to liquidate the Fund on a voluntary basis through the decision made by unit holders meeting;

8.1.3. as specified in the Securities Market Law, investment management company convened unit holders meeting of the Fund and unit holders decided to liquidate the Fund;

8.1.4. an extraordinary situation were raised as court's decision to liquidate the Fund has become in effective;

8.1.5. Private Investment Fund was bankrupted;

8.1.6. Others as stated in law;

8.2. Decisions to liquidate the Private Investment Fund shall be made by the following entity in accordance with article 30.2 of Investment Fund Law.

8.2.1. based on grounds stated in Articles 8.1.1-8.1.3 of this Law, an unit holders meeting of investment fund;

8.2.2. based on grounds stated in Articles 8.1.4, 8.1.5 of this Law and request made by the Commission or other authorized entity, the court;

8.2.3. other authorized entity stated in the regulation;

8.3. Registration of the investment fund or its prospectus of units, or granting the license to an investment fund to undertake operations of an investment fund, or granting the license to regulated entities of the securities market to provide services to an investment fund shall not be considered as a guarantee of a state organization for the fund's operations and the state organization shall not be liable for any loss, or damage caused to the investment fund member or to third parties due to the investment fund's or service provider's operations.

8.4. In the case of private investment fund is being liquidated on voluntary bases prior its operation term expires, the liquidation procedures shall be taken in accordance with following:

8.4.1. A Fund Manager of the investment fund prepares the draft procedures on Fund's liquidation where the regulation on liquidation of the Fund shall be presented and approved by unit holders meeting of the Fund;

8.4.2. A Fund Manager shall deliver the documents such as decision made by the unit holders, regulation on liquidations of the Fund and other relevant documents to the Commission;

8.4.3. The Commission may permit to proceed liquidation procedures based on the review of relevant documents, and may appoint authorized entity who shall conduct monitoring on such liquidation procedures;

8.4.4. In the case of Private Investment Fund received the permission from Commission, the Fund shall be obliged to deliver a copy of the regulation on liquidation of investment fund to the unit holders and inform to the public about liquidation within two business days on its website;

8.4.5. Custodian's operations shall be terminated and a guarantee to safe keep assets shall be issued to unit holders of private investment fund, and it shall be prohibited to dispose any assets except selling;

8.4.6. All the costs associated with selling assets of the Fund, performing any payment obligations to others on behalf of the Fund, settling any other remaining payments claimed from others shall be borne by the Fund's assets while the remaining balance of cash must be distributed to unit holders based on the number of units held in unit holders ;

8.4.7. The period to receive any claims from entities that have receivables from private investment fund shall be within six months after the date of public notice is made.

8.4.8. After the period expires to receive any outstanding claims from those who has receivables from the Private Investment Fund, the liquidator shall submit a financial report which includes total asset of the Fund and total amount of realized payables to be paid and if liquidation activities are undertaken by the investment management company, the above financial statements must be reviewed by Custodian;

8.4.9. If Private Investment Fund is to be liquidated due to failure to raise necessary assets or the volume specified in the regulation on trust management of the assets is not reached during its establishment procedure, the liquidator shall dispose assets raised by the fund and shall make payments in accordance with an order specified in Article 38 of this Law within two weeks since the date that fundraising is expired.

8.4.10. Inspector that is appointed by the Commission may issue decision discloses that private investment fund has been liquidated based on his review of liquidation report of investment fund and his consideration that any of unit holder's interest has been violated due to liquidation;

8.4.11. As soon as decision to liquidate Fund is made by the Commission, such private investment fund shall be delisted from State Registration of Legal Entities and the Fund shall be deemed as liquidated;

8.4.12. the Commission shall undertake relevant liquidation activities of those specified in 8.1.1-8.1.3 of this regulation under the Investment Fund Law and other relevant legislations.

Nine. Responsibilities

9.1. If it is identified that there is any violation and breach of the relevant provisions of this regulation as specified in the Securities Market Law, Investment Fund Law and other legislations, the offender shall be imposed with penalty by the State Inspector of Commission according to relevant laws and legislations.

9.2. If the extent of damage caused by offender who breached these regulations is subject to criminal case, the case shall be transferred to appropriate law enforcement authorities as specified in Criminal Law and other legislations.

9.3. An offender who breached the contractual obligations under the asset management agreement shall not be imposed by penalties by this regulation.

9.4. Imposing penalty for the offender as specified in 9.1 of this regulation shall not serve as a ground to release such entity/person from any of its obligations, liabilities for the compensation of damages caused to others.