

***REPUBLIC OF MONTENEGRO
DECREE
ON PROCLAMATION OF THE LAW ON
INVESTMENT FUNDS***

Pursuant to Article 88, point 2 of the Constitution of the Republic of Montenegro I adopt

DECREE
ON PROCLAMATION OF THE LAW ON INVESTMENT FUNDS

(“Official Gazette of the Republic of Montenegro”, No. 49/04 dated July 22, 2004)

The Law on Investment Funds adopted by the Parliament of the Republic of Montenegro at its sixth session of the first regular convening in 2004 is proclaimed on July 15, 2004.

No: 01-1005/2
Podgorica, July 19, 2004.

President of the Republic of Montenegro

Filip Vujanovic

LAW
ON INVESTMENT FUNDS

I BASIC PROVISIONS

Contents of the Law

Article 1

This Law shall govern the foundation and operations of organizations managing Investment Funds (hereinafter: the managing companies) and Investment Funds.

Terms and Definitions

Article 2

Certain terms and definitions under this Law shall have the following meaning:

- 1) securities shall be:
 - domestic securities issued in compliance with the Law and treasury bills issued by a resident;
 - foreign securities issued by a non-resident;

- 2) related parties shall be the parties that are mutually related in management, through capital or in another manner in order to establish business policy for accomplishment of common goals enabling them to have one person with significant impact in decision-making concerning funding and operations.

Related parties under paragraph 1, item 2 of this Article shall be deemed to be the persons:

- 1) of blood kinship in straight line regardless of the degree and side line up to the second degree as well as step children, adopted children and adoptive parents;
- 2) in and out of wedlock;
- 3) in-laws up to the second degree.

In cases when this Law stipulates certain prohibition of investing into an Investment Fund, and/or that the Managing Company must not have investments into a certain legal entity, the prohibition shall also refer to both direct and indirect investments.

Indirect investments under this Law shall be the investments into parties that are related with the legal entity under paragraph 1, point 2 of this Law.

Managing Companies

Article 3

The Managing Company shall be a shareholding company or a limited liability company founded for purpose of establishing and managing the Investment Fund and cannot perform another activity.

The Managing Company can manage one or more Investment Funds.

Investment Funds

Article 4

The Investment Fund shall be a shareholding company founded for public collection of assets and investment of the collected assets into securities, monetary deposits and real estates in compliance with this Law.

The Investment Fund shall collect assets by way of public tender of its shares.

The Investment Fund shall operate on principles of security, reduction and dispersion of risk and professional management in compliance with this Law.

Trade Name

Article 5

The name of the Managing Company must include a reference that it is a company for managing of Investment Fund.

The trade name of the Investment Fund must include a reference that it is an Investment Fund.

Business organizations including in their trade name the following words cannot be entered in the court register: "company for managing Investment Fund", "Investment Fund", "closed – end fund", "open-end fund", " mutual fund", "mutual Investment Fund" or other words with similar meaning unless founded in compliance with provisions of this Law, neither can they use these trademarks in the legal transactions and/or trade name.

Supervision

Article 6

Supervision over foundation and operations of managing companies and Investment Funds shall be performed by the Securities Commission (hereinafter: the Commission) in compliance with provisions of this Law and the Law governing securities.

The Commission shall be obliged, following the application of the client, to make a decision within 30 days as of the date of the regularly filed application.

The decision under paragraph 2 of this Article shall be final.

A client may initiate administrative proceedings at the competent court against the decision of the Commission.

Implementation of the Law

Article 7

Provisions of the law governing legal status of business organizations and laws governing insolvency of business organizations shall apply to the Managing Company and Investment Fund unless stipulated otherwise by this Law.

Provisions of the law governing securities shall apply to securities operations under this Law unless stipulated otherwise by this Law.

II INVESTMENT FUND MANAGING COMPANY

Head Office

Article 8

Head office of the Managing Company founded and operating in compliance with this Law must be on the territory of the Republic of Montenegro (hereinafter: the Republic).

Founders

Article 9

The Managing Company can be founded by domestic and foreign legal entities and private individuals.

Founders of the Managing Company cannot be:

- 1) a broker or a dealer performing on behalf of the Managing Company mediation activities in trading with securities from the Investment Fund portfolio;
- 2) insurance company with which the fund is insured.

Domestic legal entities in capital of which state capital participates with 50% or more and their related parties cannot be the founders or acquire shares of the Managing Company.

The same party cannot be the founder of more than one Managing Company.

The founder of the Managing Company cannot be a private individual that was a responsible person in the Managing Company that managed the fund over which bankruptcy proceedings or court liquidation was initiated or a person that was sentenced of criminal acts against payment system operations and business operations and against official duty.

Capital and Shares

Article 10

The cash amount of the initial capital of the Managing Company that manages only one Investment Fund cannot be lower than EUR 125,000.

If the Managing Company manages more Investment Funds, cash part of the initial capital must be increased for EUR 75,000 prior to the submission of application for managing each following Investment Fund.

In the course of operations the Managing Company shall be obliged to have at all times available the overall capital in the amount set under paragraphs 1 and 2 of this Article at minimum.

Should in the course of operations of the Managing Company the overall capital fall below the amount under paragraph 3 of this Article, the Managing Company shall be obliged to reach the prescribed level of the capital no later than six months as of the day when the overall capital fell below the prescribed amount.

Executive Manager

Article 11

A person with University degree, three years of work experience at the same or similar jobs and that has not been convicted of criminal acts against payment system operations and against official duty may be appointed executive director of the Managing Company.

Management bodies, executive director and investment managers of the Managing Company shall be obliged to publicly announce data on their financial interest in the companies from the fund portfolio and cannot participate in the adoption of decisions on investments in those companies (contracts, loans, shares etc).

Investment Managers

Article 12

The Managing Company must have minimum two persons employed for undefined period of time that are trained for performing the job of the investment manager in compliance with the Commission rules (hereinafter: the investment manager).

The investment manager of the Managing Company may be a person:

- 1) With University degree;
- 2) Who passed expert examination for investment manager in the Managing Company, where the program and manner of conducting the examination is set by the Commission;

- 3) That was not convicted of criminal acts against payment system operations and business activities and against official duty

Request for Obtaining License for Managing Company Operations

Article 13

The Managing Company must obtain the permission from the Commission for performing activities of Investment Fund management (hereinafter: the license).

Initial issue of shares of the Managing Company can be realized in a manner that the founders make the payment for purchase of shares in compliance with the Foundation Charter in the case of which the approval of the Commission for the initial issue of shares is not needed but only its registration with the Commission or that the funds are secured by way of public tender for entry and payment of shares.

The Managing Company shall submit the request for obtaining the license to the Commission after the foundation General Meeting.

In addition to the request under paragraph 3 of this Article the Managing Company shall submit:

- 1) Foundation Charter of the Managing Company,
- 2) By-law of the Managing Company,
- 3) Business plan for managing the Investment Fund for the following three years;
- 4) Proves of the founders that they paid the amount of the cash part of the initial capital prescribed by this Law;
- 5) Evidence on staff, technical and organizational capacity of the Managing Company;
- 6) Proposal for appointment of members of Board of Directors and executive manager;
- 7) Proves on intent to employ two investment managers;
- 8) Other data and proves.

The contents of requests and documentation as well as proves that are attached to the request for obtaining the license shall be set by the Commission in its rules.

License

Article 14

The Commission shall issue the license for the Managing Company if the applicant meets the prescribed requirements.

The Managing Company shall be deprived of the license if it fails to commence performing the activities within 12 months as of the day of obtaining the license.

The Commission shall keep the register of issued licenses to managing companies.

Separate Keeping of Assets

Article 15

Assets, liabilities, claims, revenues and expenditures and other rights of the Managing Company shall be kept separately from the assets, liabilities, claims, revenues and expenditures and other rights of the Investment Fund.

The Managing Company managing more Investment Funds shall separately keep the assets, liabilities, claims, revenues and expenditures and other rights for each Investment Fund.

Operating Principles

Article 16

The Managing Company shall independently manage the property of the Investment Fund in compliance with this Law.

The Managing Company shall manage the property of the Investment Fund with the diligence of conscientious businessman observing the principles of liquidity, safety and risk diversification.

The Managing Company, when managing the assets of the Investment Fund, shall be obliged to operate in the interest of the investor into securities of the Investment Fund and give priority to their interests over its own interests.

The Managing Company shall prepare periodical and annual operating reports and submit them to the Commission.

Representation in Legal Transactions

Article 17

In legal transactions performed for the Investment Fund, the Managing Company shall act on behalf and for the account of the Investment Fund in compliance with the management contract and orders of the Supervisory Board of the Investment Fund.

Liability

Article 18

The Managing Company shall be liable to the Investment Fund within the authorities stipulated by provisions of this Law, management contracts, proper regulations and Investment Fund regulations.

The Managing Company operating contrary to the provision under paragraph 1 of this Article shall be liable for the damage made to the Investment Fund.

Risk Diversification

Article 19

The Managing Company shall be obliged to manage the property of the investment in compliance with the established investment policy and if failing to do so it shall be liable to the Investment Fund for the damage made.

When making investments into securities, cash deposits and real estates, the Managing Company shall be obliged to take into account risk diversification in compliance with this Law and if failing to do so it shall be liable to the Investment Fund for the damage made.

Limitations on Investments in Other Legal Entities

Article 20

The Managing Company cannot be, directly or indirectly, the owner of shares or a share of the following legal entities:

- 1) other Managing Company;
- 2) broker or a dealer acting as intermediary for the Managing Company in trading securities from the Investment Fund portfolio;
- 3) its shareholder;
- 4) other fund;
- 5) insurance company with which the fund is insured.

Managing Company's Assets

Article 21

Managing Company and related parties cannot sell its assets to the Investment Fund or purchase the assets of the Investment Fund.

Legal activities agreed opposite to paragraph 1 of this Article shall be considered null and void.

Fund's Assets

Article 22

In managing the assets of the Investment Fund, the Managing Company cannot:

- 1) give advices to the owner of Investment Fund shares or assist in sale of securities that do not belong to the assets of Investment Fund;
- 2) borrow, pledge or encumber in another manner, use or dispose with assets of the fund except in the manner stipulated by this Law;
- 3) purchase and sell for its own account the assets of the Investment Fund under his management.

The Managing Company cannot use the assets of the Investment Fund for:

- 1) granting of loans;
- 2) guarantees and covering of proper obligations or obligations of third parties;
- 3) settlement of obligations that are not directly related to Investment Fund management.

Legal activities agreed opposite to paragraphs 1 and 2 of this Article shall be considered null and void.

Contract with Central Depository Agency

Article 23

The Managing Company shall sign the contract with the Central Depository Agency in compliance with the Law that regulates securities and procedures of the Central Depository Agency.

The Managing Company shall be obliged to ensure that the Central Depository Agency for each of the Investment Funds managed by the Managing Company opens a special account where the balance of securities is separately kept for that Investment Fund.

On the basis of the contract under paragraph 1 of this Article, the Managing Company shall be entitled to have a direct insight into the balance of securities on accounts of Investment Funds under its management without paying any fee.

Central Depository Agency shall be obliged to submit to the Commission, at its request, the data on the balance of securities it keeps for the account of Investment Funds and enable review of those balances.

III DEPOSITORY BANK

Concept

Article 24

The Managing Company shall be obliged to sign an contract with the bank licensed by the Central Bank of Montenegro that authorizes the bank to perform activities related to cash operations of the Investment Fund (hereinafter: depository bank).

Depository bank shall be selected by the General Meeting of the Investment Fund at the proposal of the Managing Company.

The Managing Company may also, according to the contract under paragraph 1 of this Article, authorize depository bank for carrying out of some other technical and administrative tasks in connection with the Investment Fund management.

Depository Bank Liabilities

Article 25

The contract under Article 24 of this Law shall regulate:

- 1) keeping account of the Investment Fund;
- 2) receipt of payments for Investment Fund shares;
- 3) execution of orders of the Managing Company;
- 4) distribution of Investment Fund dividend;
- 5) collection of return from securities from the Investment Fund portfolio;
- 6) fee amount for carrying out of contracted tasks;

The Managing Company shall be obliged to open a business account for each Investment Fund.

IV INVESTMENT FUND

Founding and Managing

Article 26

Foundation of the Investment Fund can be performed only by the Managing Company.

The Managing Company shall sign the contract on managing the fund with the Supervisory Board of the Investment Fund.

Initial Capital

Article 27

The Investment Fund shall be founded by subscription of shares on the basis of the public auction.

The public auction of the Investment Fund shares shall be carried out based on the approved prospectus of the Investment Fund, in compliance with the law regulating securities.

The initial capital of the Investment Fund cannot be lower than EUR 500,000.

The Investment Fund capital following the foundation may be increased in compliance with the Law.

Shares

Article 28

The Investment Fund shall issue ordinary shares addressed to a name and with the right to vote except in cases under Article 29 of this Law.

The Investment Fund shares may be paid only in cash and must be fully paid prior to the foundation of the Investment Fund and/or prior to the Investment Fund capital increase.

The Investment Fund shares shall have no limitations concerning transfer.

Shares issued contrary to paragraph 3 of this Article shall be null and void. Provision of the Investment Fund by-law limiting the transferability of shares of the fund shall also be null and void.

The Investment Fund shall not acquire its own shares.

A legal transaction on the basis of which the Investment Fund acquires its own shares shall be null and void.

Shares of the Investment Fund shall be included in the special stock exchange list.

Limitations on Acquiring Investment Fund Shares

Article 29

Private individual, legal entity and related party cannot be the owner of more than 5% of shares of an Investment Fund except in a manner and under conditions stipulated by the Law.

The Central Depository Agency shall be obliged to inform the Managing Company and the Commission on acquisition of shares above limitations set in paragraph 1 of this Article on monthly basis.

The person that acquired Investment Fund shares above limitations set in paragraph 1 of this Article shall have no voting right on the shares and shall be obliged to offer them for sale within eight days as of the acquisition day.

Request for Approval of Fund's Prospectus

Article 30

The Managing Company shall submit to the Commission the request for approval of prospectus of the initial issue of the Investment Fund shares.

The following documents shall have to be attached to the request under paragraph 1:

- 1) proposal of the Investment Fund By-law that shall include investment policy for investment of assets of the fund;
- 2) proposal of the prospectus and segments from the prospectus;
- 3) proposal of public notice for subscription and payment of shares;
- 4) proposal of contract on Investment Fund management;
- 5) other documentation in compliance with the Law and Commission procedures.

The contents of the prospectus of the initial issue of Investment Fund shares and the contents of requests and documentation submitted along with the request for approval of the prospectus shall be set by the Commission in its procedures.

The Commission shall make a decision on the approval of the initial issue prospectus of the Investment Fund shares by way of the resolution published in the "Official Gazette of RM".

Subscription and Payment of Shares

Article 31

Subscription and payment of shares shall be carried out with the depository bank on a special form – subscription form.

The subscription form shall particularly include:

- 1) facsimile of signatures of the authorized persons in the Managing Company;
- 2) statement of the subscriber that he is informed and compliant with the By-law of the Investment Fund and investment policy of investing the fund's assets;
- 3) other data set by the Commission in its procedures.

Investment Fund Statutory General Meeting

Article 32

The Managing Company shall convene the Statutory General Meeting of the Investment Fund following the receipt of the Commission decision on determining success of the initial issue of shares.

The Statutory General Meeting under paragraph 1 of this Article shall:

- 1) adopt By-law of the Investment Fund;
- 2) adopt contract on managing the Investment Fund;
- 3) appoint members of the first Supervisory Board;
- 4) appoint auditor and depository bank;
- 5) decide on other issues set by the Law.

Foundation Costs

Article 33

The Managing Company shall be entitled to settlement of foundation costs out of the assets of the fund maximum up to the amount of 1% of the value of the initial capital on the occasion of the Investment Fund foundation.

Calculation and payment of costs under paragraph 1 of this Article shall be approved by the Supervisory Board.

License

Article 34

Following the Statutory General Meeting, the Managing Company shall submit the request to the Commission for obtaining the license for the Investment Fund operations.

The following documents shall be enclosed with the request under paragraph 1 of this Article:

- 1) Investment Fund By-law;
- 2) Evidence on secured initial capital of the Investment Fund as set by this Law;
- 3) Decision on appointment of members of the first Supervisory Board;
- 4) Decision on appointment of auditor;
- 5) Contract on managing the Investment Fund;
- 6) Contract with the Depository bank and contract with the Central Depository Agency;
- 7) Evidence that the Managing Company employs minimum two investment managers for each Investment Fund under its management;
- 8) Other documentation proving that the Managing Company meets requirements for Investment Fund management in compliance with the Law and other regulations.

The contents of the request and documentation enclosed with the request for obtaining of license for the Investment Fund operations shall be set by the Commission.

Having determined that all requirements for obtaining of license have been met, the Commission shall bring a decision on granting of license for the Investment Fund operations.

The Commission shall keep the register of granted licenses for Investment Fund operations.

The contents and details for keeping the register of granted license shall be regulated by the regulation of the Ministry of Finances.

Registration

Article 35

The Investment Fund shall acquire the status of a legal entity as of the day of registration with the Central register of the Commercial Court in Podgorica.

The Managing Company shall be obliged to submit an application for registration of the Investment Fund in the Central register of the Commercial Court no later than 30 days as of the day of receipt of decision according to which the license is granted to the Investment Fund.

By-law

Article 36

The By-law of the Investment Fund, in addition to provisions stipulated by the Law governing legal status of business organizations shall also include provisions on:

- 1) investment policy and Investment Fund objectives;
- 2) tasks of the Managing Company in Investment Fund management;
- 3) authorities and liabilities of members of the Supervisory Board and criteria for determining amount of compensation for members of the Investment Fund Supervisory Board;
- 4) profit distribution policy.

Investment Fund Bodies

Article 37

Investment Fund bodies shall be the General Meeting of Shareholders and Supervisory Board.

The General Meeting of the Investment Fund shall consist of shareholders of the fund.

Members of the Supervisory Board shall be appointed by the Investment Fund General Meeting.

Investment Fund General Meeting

Article 38

The law governing legal status of business organizations shall apply to convening, organizing and adoption of decisions of the Investment Fund General Meeting.

Members of the Board of Directors, Executive Directors and employees in the Managing Company cannot be the authorized persons of owners of Investment Fund shares at the General Meeting of the Investment Fund.

The Investment Fund General Meeting shall bring a decision on concluding the Contract on Management.

Investment Fund Supervisory Board

Article 39

The Investment Fund Supervisory Board shall be the body supervising the Investment Fund management and shall perform its function in the interest of the Investment Fund shareholders.

Provisions of the law governing legal status of business organization referring to appointment, convening, organizing and adoption of decisions of the Board of Directors shall apply to the appointment, convening, organizing and adoption of decisions of the Investment Fund Supervisory Board.

Members of the Investment Fund Supervisory Board cannot be;

- 1) members of bodies or employees in a legal entity that is the founder of the Managing Company or private individuals founders of the Managing Company;
- 2) members of bodies or employees in the managing company, depository bank, Central Depository Agency, broker, dealer or auditor as well as members of their families (spouse, parents, children, brothers and sisters);
- 3) high officials and officials in state bodies and organizations;
- 4) persons convicted of criminal acts against payment system operations, commercial activities and against official duty.

The Supervisory Board of the Investment Fund shall perform the following activities:

- 1) sign contract on Managing Company management and provide that provisions of the contract are fully observed;
- 2) adopt annual program of the Investment Fund investment policy;
- 3) convene Investment Fund shareholders General Meeting in case when the General Meeting is not convened by the Managing Company;
- 4) provide opinion to the General Meeting with regard to the election of the depository bank and Investment Fund auditor;
- 5) establish report on Investment Fund operations;
- 6) establish final annual financial statement of the Investment Fund and provide its audit by the appointed auditor;
- 7) control and approve calculation of net value of the Investment Fund assets;
- 8) control calculation and approve payment of compensation to the Managing Company in compliance with regulations and management contract as well as the fee to depository bank, Central Depository Bank, broker or dealer, auditor, Commission and other expenses of the Investment Fund.
- 9) Decide on other issues necessary for continuous operations of the Investment Fund in compliance with the Fund By-law.

Investment Fund Management

Article 40

The Investment Fund shall be managed by the Managing Company based on the management contract by way of which it takes over the obligation to carry out all assets management tasks on behalf and for the account of the Fund.

The Managing Company shall be obliged to manage the Investment Fund in the interest of Investment Fund shareholders in compliance with the highest professional standards.

Carrying Out of Investment Fund Operations

Article 41

The Managing Company shall be liable for carrying out of Investment Fund tasks, management and functioning of bodies of the fund and particularly for:

- 1) calculating and publishing net value of Investment Fund assets and net value of Investment Fund shares in compliance with regulations of the Commission;
- 2) keeping business books and storing of business books and reports of the Investment Fund;
- 3) organizational and administrative services necessary for functioning of the General Meeting and the Supervisory Board of the Investment Fund;
- 4) other conditions necessary for successful operations of the Investment Fund and functioning of its bodies.

Contract on Management

Article 42

The Managing Company and the Investment Fund shall sign the Contract on Management that shall regulate mutual rights and duties.

According to the Contract on Management under paragraph 1 of this Article the Managing Company shall be obliged to, on behalf of and for the account of the Investment Fund, manage the assets of the Fund in compliance with this Law and the Investment Fund shall be obliged to pay a fee for those tasks.

The contract on Investment Fund management shall particularly include:

- 1) the subject and objectives of the investment policy;
- 2) principles of Investment Fund management;
- 3) basic principles and limitations of the Investment Fund investments;
- 4) type of services performed by the Managing Company for the Investment Fund;
- 5) manner of publishing and contents of reports concerning Investment Fund assets management as well as data on their availability;
- 6) the amount and manner of calculation of compensation for management;
- 7) manner of reporting on the Investment Fund operations.

More detailed contents of the contract shall be governed by the Commission in its procedures.

Investment Policy of the Investment Fund

Article 43

Investment policy of the Investment Fund shall be set by the Contract on Management and annual program that is adopted by the Supervisory Board of the Investment Fund at the proposal of the Managing Company.

The Managing Company must undertake all necessary measures and activities for implementation of the investment policy of the Investment Fund adopted by the Supervisory Board.

Managing Company Liability

Article 44

The Managing Company shall be liable to Investment Fund shareholders if it fails to carry out the investment policy in accordance with the Contract on Management, annual program and the Law.

Liability of the Managing Company under paragraph 1 of this Article cannot be left out or limited by Contract on Management.

Prohibited Contracts

Article 45

The Managing Company must not acquire securities for its account from the Investment Fund or sell securities bought for its own account to the Investment Fund.

Contracts signed opposite to paragraph 1 of this Article shall be null and void.

Assets Net Value

Article 46

Net value of the Investment Fund assets shall be calculated by the Managing Company based on the methodology prescribed by the Commission.

Calculation of net value of Investment Fund assets shall be approved by the Supervisory Board of the Fund.

The auditor shall provide his opinion on the calculation of the annual net value of the Investment Fund.

Profit Distribution

Article 47

The Managing Company, in compliance with the By-law, shall propose the Investment Fund profit distribution to the Investment Fund General Meeting and, following the adoption of the annual financial statement with the report of auditor and decision of the Fund's General Meeting, give order to the depository bank to pay dividend to the Investment Fund shareholders.

Compensation and Costs

Article 48

The Managing Company shall be entitled to compensation for the Investment Fund management.

The compensation for Investment Fund management shall be set by the Contract on Management while the overall annual compensation amount cannot exceed 3% of the annual value of the Fund assets.

The Managing Company shall be obliged to cover all costs related to the Fund management out of the compensation under paragraph 2 of this Article.

The costs under paragraph 3 of this Article shall be deemed to be:

- 1) services concerning registration, clearing and establishing balance of transactions with securities;
- 2) payment system operations services;
- 3) costs related to purchase and sale of securities;
- 4) market research and publication of prospectus and public notice on sale of shares;
- 5) Commission compensation;
- 6) Auditing costs;
- 7) Other costs set by the fund By-law.

The Investment Fund and the Managing Company may agree that in case of annual growth of the Fund's profit, the Managing Company shall be entitled to additional annual compensation in a certain percentage of the annual profit increase.

Calculation and payment of fee under paragraphs 2,3,4 and 5 of this Article shall be approved by the Supervisory Board of the Investment Fund.

The provision of the Contract on Management that is not in compliance with provisions of this Article shall be null and void.

Reporting

Article 49

The Managing Company shall report to the Supervisory Board of the Investment Fund at its request, and minimum once a month, on investments into securities, cash deposits and real estates on behalf of and for the account of the Investment Fund as well as on revenues out of Investment Fund assets.

The Managing Company shall prepare periodical and annual statements on the Investment Fund operations as well as a monthly report on keeping the Investment Fund cash resources and submit it to the Commission.

The contents of the statement under paragraph 2 of this Article and deadlines for their submission shall be set by the Commission.

Contract Termination

Article 50

The Contract on Management shall terminate in the following cases:

- 1) cancellation of a contract;
- 2) contract termination by force of the Law;
- 3) in other cases in compliance with the law.

The Managing Company and the Investment Fund shall both have the right to cancel the Contract on Management.

Termination of the Contract on Management shall generate a legal effect as of the day when the Commission gives approval to the Investment Fund for concluding the contract with other Managing Company.

Cancellation of Contract on Management by Mutual Agreement

Article 51

The Investment Fund and the Managing Company may cancel the contract by mutual agreement.

Cancellation of the contract shall generate a legal effect as of the day when the Commission gives approval to the Investment Fund to conclude a Contract on Management with other Managing Company.

Article 52

Provision of this Law pertaining to issue of license to the Managing Company shall apply to the approval for signing of the Contract on Management with other Managing Company, while the agreement on cancellation of the Contract on Management shall be submitted to the Commission.

Cancellation of the Contract on Management due to Withdrawal of License of the Managing Company

Article 53

The Contract on Management of the Investment Fund shall be cancelled, by force of the Law, if the Managing Company license is withdrawn.

In the case referred to in Article 1 of this Article, the Commission shall, by way of a decision on withdrawal of license for the Managing Company operations, order to the Supervisory Board of the Investment Fund to perform urgent tasks concerning Investment Fund management until the contract with the new Managing Company is signed.

The urgent tasks referred to under paragraph 2 of this Article shall mean the tasks that need to be performed in order to prevent the loss to the Investment Fund.

The Managing Company whose license is withdrawn shall be obliged to transfer activities concerning the assets management of the Investment Fund to the Supervisory Board of the Fund within eight days as of the day of receipt of the Commission decision.

The Investment Fund must submit to the Commission the request for issue of approval for concluding the contract with another Managing Company no later than three months as of the day of the receipt of the Commission's decision by way of which the license of the Managing Company is withdrawn.

Should the Investment Fund, within the deadline under Article 5 of this Article, fail to submit the request for issue of approval for signing of the contract with another Managing Company, the Commission shall initiate the court proceedings for the Investment Fund liquidation.

V INVESTMENT FUND ASSETS INVESTING

Permitted Investments

Article 54

The Investment Fund may invest the assets collected in accordance with this law into:

- 1) securities;
- 2) cash deposits;
- 3) real estates.

The Investment Fund may invest into domestic securities and foreign securities that are in demand on organized markets of OECD countries as well as on other markets that meet the requirements of transparency in operations with securities and that are selected by the Supervisory Board of the Fund.

The Investment Fund may keep cash deposits in domestic banks.

Investment Limitations

Article 55

The Investment Fund shall be obliged to invest minimum 20% of its assets in the Republic.

Prohibition on Investing

Article 56

The Investment Fund must not invest into:

- 1) other Investment Funds;
- 2) the Managing Company;
- 3) depository bank;
- 4) authorized participant on the securities market performing broker activities in trading securities from the Investment Fund portfolio on behalf of the Managing Company;
- 5) legal entities that are the owners of more than 10% of shares of the Managing Company that manages the Investment Fund.

Borrowings

Article 57

The Investment Fund may take up borrowings up to 5% of net value of the assets under the repayment deadline of maximum six months upon obtaining the approval of the Supervisory Board of the Investment Fund.

The Investment Fund may not take up borrowings from the Managing Company.

The Investment Fund may not lend the assets out of the Fund's assets.

Exceeding the Limitations on Investing

Article 58

Following the foundation of the Investment Fund, the Managing Company shall be obliged to adjust the investment structure of the Investment Fund's assets with provisions of this Law within six months following the receipt of confirmation on registration of the Investment Fund in the Central register of the Commercial Court in Podgorica.

Should in the course of operations of the Investment Fund any changes occur in the structure of Investment Fund's assets investment that breach the limitations prescribed by this Law, the Managing Company shall be obliged to inform the Commission thereon within two days and to duly undertake appropriate measures that shall ensure reestablishing of the investment structure in compliance with this Law.

VI PRIVATIZATION INVESTMENT FUNDS

Legal Status

Article 59

Privatization funds and specialized private management companies founded in compliance with the Decree on privatization funds and specialized private management companies ("Official Gazette of RM", No. 8/99, 18/00, 49/01 and 1/02) shall continue their operations as a special form of Investment Funds under the name Privatization Investment Funds and Privatization Investment Funds Managing Companies.

Provisions of this Law pertaining to operations of Investment Funds and Managing Companies shall apply to operations of Privatization Investment Funds and companies for managing Privatization Investment Funds.

Privatization Investment Funds shall operate as shareholding companies.

Investment Structure and Borrowings

Article 60

Privatization Investment Funds may invest the collected assets in compliance with Articles 54 and 55 of this Law.

Privatization Investment Funds may engage into borrowings under conditions and in a manner stipulated by Article 57 of this Law.

VII MUTUAL INVESTMENTS FUND

Legal Status

Article 61

Mutual Investment Fund shall be the special type of Investment Fund.

Provisions of this Law pertaining to operations of Investment Funds and Managing Companies shall accordingly apply to operations of Mutual Investments Funds and companies managing those funds.

The Mutual Investments Fund shall be founded by minimum two legal entities or private individuals.

Investment Structure

Article 62

The Mutual Investment Fund may invest the assets collected in compliance with this Law into securities, cash deposits and real estates without limitations stipulated under Articles 55 and 56 of this Law and in compliance with the set investment policy.

Borrowings

Article 63

In managing the assets of the Mutual Investments Fund, the Managing Company may borrow, pledge or in other manner encumber, use or dispose with the Fund assets.

The Mutual Investment Fund may take up borrowings with no limitations, upon receiving the approval of the Supervisory Board of the Fund.

VIII DISCLOSURE OF INFORMATION AND CONFIDENTIALITY

Disclosure of Information on Operations

Article 64

With regard to operations of the Investment Fund, the Managing Company shall disclose the following:

- 1) public tender for registration and payment of shares of the Investment Fund;
- 2) segments form the annual and periodical statements on operations of the Investment Fund;
- 3) investment structure of the Investment Fund;
- 4) net assets value and value of the Investment Fund share;
- 5) other information set by the Commission.

The contents and manner of reporting under paragraph 1 of this Article shall be established by the Commission.

Promotion of the Investment Fund Operations

Article 65

Operations of the Investment Fund shall be disclosed through issue of publication or in other manner by publishing data in one of daily media issued in the Republic, on radio, television, by phone, electronic mail, notice board, brochures, marketing or other promotion materials.

The promotion must include:

- 1) name and address of the Head office, phone number and address of electronic mail of the Managing Company and the Investment Fund whose securities are being offered;
- 2) reference to the place where the prospectus can be obtained free of charge;
- 3) reference that previous operations of the Managing Company and the Investment Fund does not guarantee the future results and that the investments involves risk;
- 4) name of the authorized participant or name and surname of other person responsible for accuracy and completeness of information disclosed in the public promotion;
- 5) other information set by the Commission regulations.

More details and the manner of promotion of the Investment Fund operations shall be set by the Commission.

Confidentiality

Article 66

In the public promotion the following shall not be disclosed:

- 1) incomplete and inaccurate information on the Managing Company and the Investment Fund, securities offered for sale and conditions of sale;
- 2) assessment and guarantees for value increase and return on securities;
- 3) public guarantee on profit based on investments or information based on comparison with investments into other securities;
- 4) data on deficiencies in operations of authorized participants that participate in similar activities in trading with securities or deficiencies of issuers of similar securities.

A person that acts opposite to paragraph 1 of this Article shall be obliged to compensate to third parties the damage made by such acting.

Special Provisions

Article 67

Disclosure of information on the Managing Company and the Investment Fund and securities that shall be submitted to the Commission shall not be deemed to be public promotion.

Disclosure of information on the performed issue of securities or paid dividend shall be deemed to be public promotion.

The authorized participants may publicly disclose information on securities and issuers only within the activities they perform in trading with securities.

Confidentiality

Article 68

All persons performing any function or employees in the Managing Company, Investment Fund, Central Depository Agency or depository bank, broker or dealer must keep confidential all information on intentions and activities of the Managing Company or the Investment Fund except those that are public according to provisions of this Chapter.

IX LIMITATIONS TO PREVENT CONFLICT OF INTEREST

Prohibited Membership in Boards

Article 69

Members of the Board of Directors and Executive Director of the founder of the Managing Company cannot be the members of the Supervisory Board in the Investment Fund managed by that Managing Company.

Members of the Board of Directors, Executive Directors and employees in the Managing Company cannot be the members of the management boards or employees in another Managing Company, other Investment Fund and authorized participant on the securities market that perform broker activities of mediation in trading with the Investment Fund securities for the Managing Company.

Members of the Supervisory Board of the Investment Fund cannot be the members of boards or employees in the founder of the Managing Company that manages that Investment Fund, that or other Managing Company, other Investment Fund.

Persons employed in the Managing Company, as well as members of their immediate family cannot be employed in another Managing Company.

Prohibition on Use of Information

Article 70

No person that in the course of its business activity gets into possession of an information important for determining the value of securities from the Investment Fund portfolio to which the public has no access, shall use the information on the occasion of the transaction of securities for its account or in order to stimulate or facilitate transactions for the account of a third person.

Article 71

A member of the Supervisory Board of the Investment Fund, a member of the Board of Directors of the Managing Company, Executive Director of the Managing Company, investment manager or an employee in the Managing Company must not participate in operations that enable him or a related person to benefit from decrease of value of the Investment Fund shares.

Compensation

Article 72

For carrying out of managing tasks over the Investment Fund the members of the Supervisory Board of the Investment Fund, members of Board of Directors of the Managing Company, Executive Director of the Managing Company and employees in the Managing Company shall receive a compensation or wage from the Investment Fund and/or a Managing Company while the receipt of funds on this basis from other sources shall be forbidden.

Investment Records

Article 73

A member of the Supervisory Board of the Investment Fund, a member of the Board of Directors of the Managing Company, Executive Director of the Managing Company, investment manager or employees in the Managing Company and persons performing certain activities for the Investment Fund on the basis of the special agreement must report to the Managing Company any possession or purchase or sale of shares of legal entities under Article 20 of this Law and shares of the Investment Fund managed by that company.

The Managing Company shall keep records on purchase and sale under paragraph 1 of this Article.

The records under paragraph 2 of this Article shall include:

- 1) name, last name and address of the private individual and/or name and Head Office of the legal entity under paragraph 1 of this Article;
- 2) status of the person under paragraph 1 of this Article to the Managing Company;
- 3) date of concluding the contract on purchase and/or sale;
- 4) number of shares that were the subject of purchase and/or sale;
- 5) purchase and/or sale price.

The records under paragraph 2 of this Article shall be public and persons that have legal interest may have an insight into the records.

The Managing Company shall be obliged to submit to the Commission the records under paragraph 2 of this Article on monthly basis.

Provisions of paragraph 1 to 5 of this Article shall be applicable in case of acquisition and/or alienation of shares on other basis (gift, heritage).

X SUPERVISION OVER THE SECURITIES COMMISSION

Authorities of the Commission

Article 74

The Commission shall perform supervision over the Managing Company and the Investment Fund by giving approval to their regulations and performing control of their operations in compliance with this Law.

The Commission may also perform the control of a depository bank within the activities it performs in compliance with this Law.

The Commission may, with no limitations, review regulations, business books, documents and other materials of the Managing Company related to operations of the company and the Investment Fund.

Article 75

In performing the supervision the Commission may request:

- 1) reports and information on operations of the Managing Company and/or the Investment Fund;
- 2) reports and additional information on performed audit of the Managing Company and/or Investment Fund;
- 3) extraordinary audit of operations of the Managing Company and /or the Investment Fund;
- 4) amendments to the Contract on Management of the Investment Fund;
- 5) other data and information set by its regulation.

The Commission shall determine by way of its regulation the manner and deadlines for reporting under paragraph 1 of this Article.

Approvals

Article 76

The Commission shall give the approval to:

- 1) the Foundation Charter and the By-law of the Managing Company and amendments to them;
- 2) the Investment Fund By-law and its amendments;
- 3) Contract on Management of the Investment Fund and its amendments;
- 4) other regulations stipulated by this Law.

Removal of Illegitimate Actions and Irregularities

Article 77

Should the Commission while carrying out supervision observe illegitimate actions or irregularity in operations of the Managing Company or Investment Funds, it shall order by way of a decision that the observed illegitimate actions and/or irregularities are removed within the set deadline.

The Managing Company shall be obliged to remove the observed illegitimate actions and/or irregularities within the given deadline and inform the Commission on measures undertaken.

Measures

Article 78

Should the Managing Company fail to remove the observed illegitimate actions and/ or irregularities within the given deadline and inform the Commission thereon by submitting the appropriate evidence, the Commission shall undertake the following measures:

- 1) give order for recall of the members of the Supervision Board of the Investment Fund;
- 2) give order for change of the Managing Company;
- 3) warn in writing, suspend on temporary basis or withdraw the investment manager license;
- 4) temporarily prohibit the Managing Company and the Investment Fund assets disposing;
- 5) withdraw the Managing Company license;
- 6) other measures necessary for removal of illegitimate actions and irregularities in operations of the Managing Company and the Investment Fund.

The Commission may pronounce one or more measures under paragraph 1 of this Article with regard to the nature and weight of the observed irregularities.

More details, the manner and the procedure for carrying out of supervision shall be set by the Commission.

The Managing Company License Withdrawal

Article 79

The Commission may withdraw the Managing Company license if:

- 1) the license is obtained by stating the false data;
- 2) it invests the Investment Fund assets or in other manner acts opposite to this Law;
- 3) it fails to submit the required documentation to the Commission in the procedure of supervision or in other manner disrupts carrying out of supervision over its operations;
- 4) the Managing Company adopts decision on liquidation;
- 5) it fails to reach the prescribed capital level within the prescribed deadline;
- 6) it ceases to meet requirements prescribed for obtaining of license;
- 7) in other cases when it estimates that by illegitimate managing of the Investment Fund the Managing Company jeopardizes the interests of the Investment Fund owner.

Effects of the License Withdrawal

Article 80

The decision of the Commission by way of which the Managing Company license is withdrawn shall order:

- 1) the payment system operations to cease executing the orders of the authorized persons in the Managing Company for transfer of cash funds from the account of the Investment Fund managed by the Managing Company as well as from the accounts of the Managing Company;
- 2) the Central depository agency to cease executing the orders of the authorized persons of the Managing Company for transfer of securities from the Investment Fund portfolio managed by the Managing Company to other persons.

Submission of Decisions

Article 81

The decision on withdrawal of the Managing Company license shall be submitted by the Commission to the competent court, the Managing Company, the Investment Fund, Central depository agency, depository bank, stock exchange and association of authorized participants on the securities market.

The decision under paragraph 1 of this Article shall be published in the "Official Gazette of the Republic of Montenegro".

XI PENALTY PROVISIONS

Article 82

A pecuniary fine in the amount from fifty times to three hundred times minimum wage in the Republic shall be imposed against the Managing Company if it:

- 1) also performs another activity in addition to managing the Investment Fund (Article 3, paragraph 1);
- 2) initiates carrying out of the activity of managing Investment Fund before obtaining the license from the Commission (Article 13, paragraph 1);
- 3) fails to separately keep assets, liabilities, claims, revenues and expenditures and other rights of the Managing Company from the assets, liabilities, claims, revenues and expenditures and other rights of the Investment Fund (Article 15, paragraph 1);
- 4) acts opposite to Article 16, paragraph 4 of this Law;
- 5) fails to observe the limitations on investing into other legal entities prescribed by Article 20 of this Law;
- 6) acts opposite to Article 21 of this Law;
- 7) manages the assets of the Investment Fund and uses the Investment Fund assets in a manner opposite to Article 22, paragraphs 1 and 2 of this Law;
- 8) fails to act in compliance with Article 24, paragraph 1 of this Law;
- 9) fails to open a business account for each Investment Fund it manages (Article 25, paragraph 2);
- 10) fails to convene the Statutory General Meeting of the Fund (Article 31, paragraph 1);
- 11) covers the cost of founding the Investment Fund in a manner opposite to Article 41 of this Law;
- 12) acts opposite to Article 41 of this Law while performing the Investment Fund activities;
- 13) acts opposite to Article 43 of this Law;
- 14) collects the compensation for managing the Investment Fund opposite to Article 48, paragraphs 2 and 3 of this Law;
- 15) acts opposite to Article 49 of this Law;
- 16) fails to transfer all activities concerning management of the Investment Fund assets to the Supervisory Board of the Fund within eight days as of the day of receipt of the decision of the Commission by way of which its license is withdrawn (Article 53, paragraph 4);
- 17) acts opposite to Article 55 of this Law;
- 18) acts opposite to Article 56 of this Law;

- 19) acts opposite to Article 57 of this Law;
- 20) acts opposite to Article 58 of this Law;
- 21) acts opposite to Article 60 of this Law;
- 22) gets borrowings opposite to Article 63 of this Law;
- 23) fails to disclose information on the Investment Fund operations in compliance with Article 64 of this Law;
- 24) acts opposite to Article 66, paragraph 1 of this Law concerning public promotion.

A pecuniary fine in the amount from fifty times to three hundred times the minimum wage in the Republic shall be imposed against the Investment Fund if:

- 1) it was not founded only with purpose of public collection of cash funds and investment of the collected funds into securities, cash deposits and real estates and in compliance with principles of safety, reduction and risk dispersion and professional management (Article 4, paragraphs 1 and 3);
- 2) it acquires its own shares (Article 28, paragraph 5).

For the offence under paragraphs 1 and 2, a pecuniary fine in the amount from one half to twenty times minimum wage in the Republic shall be imposed against the responsible person in the legal entity.

Article 83

Persons convicted of the offence under Article 82 of this Law may not be the responsible persons of the Investment Fund Managing Company until the expiry of the one year deadline as of the effective date of the decision.

XII TRANSITIONAL AND FINAL PROVISIONS

Article 84

Privatization funds and specialized Private Management Companies founded in compliance with the Decree on privatization funds and specialized private management companies ("Official Gazette of RM", NO 8/99, 18/00, 49/01 and 1/02) shall be obliged to reconcile their regulations, organization and operations with provisions of this Law no later than January 1, 2005 when the Decree on privatization funds and specialized private management companies ("Official Gazette of RM", NO 8/99, 18/00, 49/01 and 1/02) ceases to be in effect as well as regulations adopted pursuant to it.

Should the Specialized Managing Company, within the deadline under paragraph 1 of this Article, fail to reconcile its regulations, organization and operations, the Commission shall withdraw its license.

In case under paragraph 2 of this Article, the Commission shall order the Supervisory Board of the privatization fund to perform urgent tasks concerning the management of the Fund and submit the request to the Commission to give the approval for signing of the contract with another Managing Company until the signing of the contract with the new Managing Company, but no later than three months as of the day of withdrawal of license to the specialized private managing company.

The founders of the specialized Private Managing Companies that, in compliance with Article 9, paragraph 2 of this Law, cannot be the owners of shares of the Managing Company, shall be obliged to offer their shares for sale no later than two months as of the effective date of this Law.

Article 85

The current Funds with the majority of state capital and other legal entities in the Republic may get transformed into the Investment Fund according to this Law.

Provisions of this Law referring to operations of the Mutual Investment Fund shall apply to operations of the Investment Fund formed in a manner stipulated under paragraph 1 of this Article.

Article 86

If the investment manager activities in specialized Private Managing Companies are performed by persons that, by the effective date of this Law, were awarded the title of the investment manager by the Commission but have no university degree, the companies shall be obliged to employ the investment manager with the university degree no later than six months as of the effective date of this Law.

Article 87

Regulations for the implementation of this Law shall be adopted within three months as of the effective date of this Law.

Until the adoption of the regulations under paragraph 1 of this Article, regulations adopted pursuant to the Decree on privatization funds and specialized private management companies ("Official Gazette of RM", NO 8/99, 18/00, 49/01 and 1/02) shall apply to operations of the privatized Investment Funds.

Article 88

This Law shall come into force eight days following its publication in the "Official Gazette of the Republic of Montenegro".