



The Pakistan Credit Rating Agency Limited

## PRESS RELEASE

### Rating Action

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### PACRA SEES THE NEED OF CONCERTED EFFORTS FOR ASSET MANAGEMENT INDUSTRY

Pakistan's asset management industry flourished from FY02 onwards, with assets under management registering a significant growth. Meanwhile, the number of funds and asset management companies has also increased manifold during the period. The industry, while offering alternative investment opportunities, remained instrumental in developing secondary corporate bond market and added strength to the bourses.

The industry is still in its nascent stage and now faces major challenges arising from various broad socio-economic risks impacting the overall economy and in turn the capital and money markets. These factors, mainly interdependent in nature, include the widening fiscal and trade imbalances, rising inflation, depreciating Pak Rupee, outflow of portfolio investment, and also the worsening law and order situation. The current downturn in the economy also coincided with the turmoil in the international financial markets.

The meltdown in the stock markets since April 2008 has led to substantial erosion of investors' money. Further, in response to apparent freezing of stock markets due to imposition of floor limits, the Securities and Exchange Commission of Pakistan (SECP) has recently imposed restriction on issue and redemption of units of mutual funds having direct investment in equities.

The fixed income funds segment is also coming under pressure due to constrained liquidity in the money markets. As commercial banks are one of the major investors in income funds, any liquidity needs of the banking industry have direct bearing on the size of such funds. Notably, the industry has successfully managed such conditions in the past. However, the recent liquidity squeeze in the interbank market is leading to significant redemption pressure. The SECP's recent decision, though addressing liquidity related issues in equity related funds, has also contributed towards triggering investors' fears regarding imposition of such restriction in case of fixed income funds as well.

During this challenging environment, majority of asset managers have fared well and maintained their portfolio allocations keeping in view the market sentiments and investors mix. The corporate debt instruments (TFCs and Sukus) constitute a sizeable portion of income funds, the secondary market of which has increasingly become illiquid in the current scenario. This could bring additional challenge for the fund managers, if the redemption pressure increases. While the State Bank of Pakistan (SBP) has recently taken measures to release pressure on interbank market, the situation warrants a more collective



and swift effort from all the stakeholders including the SBP, SECP, Mutual Funds Association of Pakistan, and market participants.

As the prospects of asset management industry are directly linked to macroeconomic outlook and condition of the capital markets, and considering the immediate challenges in hand, PACRA sees mounting pressure on the industry that may impact its overall growth prospects and performance. PACRA, as a part of its ongoing surveillance, is monitoring all developments very closely, and may take a client specific rating action wherever it is deemed appropriate.

We would like to emphasize that for any concern about any rated entity in the country, it is appropriate to consult the respective rating agency before drawing any conclusion. This does not necessarily exclude any independent analysis or objective reservations about the rating opinion. Nevertheless, discussion with the respective rating agency could only help in developing a more informed view about the company.

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