

Mutual Funds | Performance

An Overview



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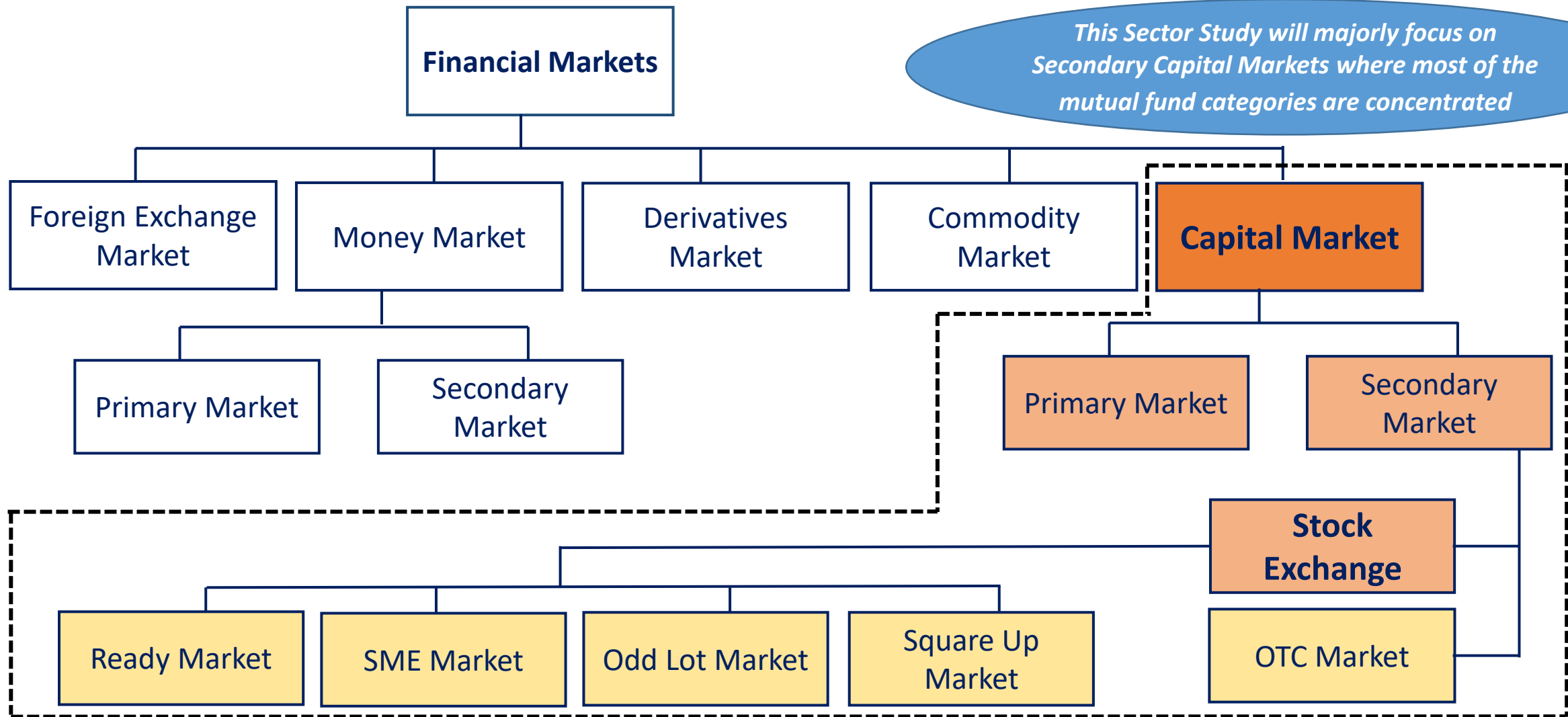


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MUTUAL FUNDS | INTRODUCTION

Types of Financial Markets



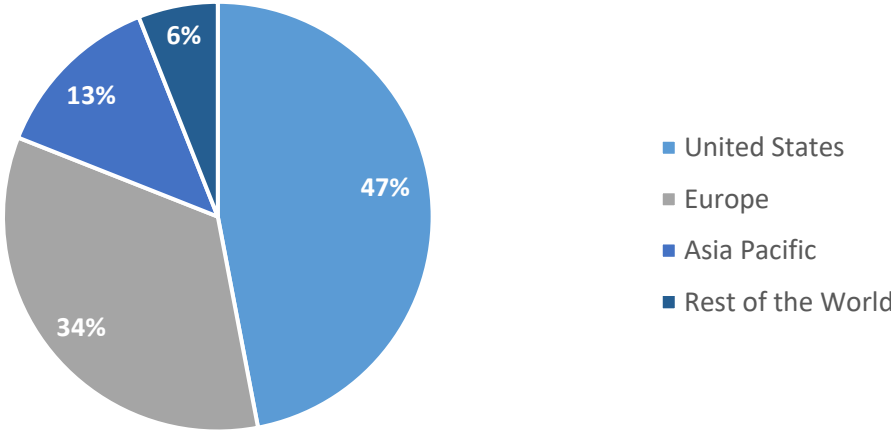
An Overview of Capital Markets

- Capital markets provide viable avenues for raising capital and facilitate buying and selling of financial instruments. The two main categories of financial instruments in which markets are involved are equity securities (commonly known as 'stocks' or 'shares') and debt securities (TFCs, bonds, Sukuks Commercial Papers etc.). Capital markets are utilized to raise funds for medium-term (debt instruments) and long-term (bonds and equity securities).
- Other than the distinction between equity and debt, capital markets operate under two structures: primary markets and secondary markets. In primary markets, stocks and bonds are issued directly by the companies to retail and institutional investors often through underwriting.
- The level of capital market development is an important determinant of level of savings, efficiency of investment and ultimately rate of economic growth.
- Capital markets are overseen by regulatory bodies to ensure the protection of investors and smooth functioning of the market within legal parameters. The capital market structure consists of regulators, stock exchanges, clearing houses along with brokers, investors and other market participants.
- The capital market structure in Pakistan consists of an apex regulator of the markets, the Securities and Exchange Commission Pakistan (SECP), Pakistan Stock Exchange (emerged as a result of merging three stock exchanges), Mercantile Exchanges, Central Depository Company (CDC) and a Clearing and Settlement Company. The structure further includes intermediaries or market participants such as brokers which handle the transaction of shares in the capital markets on behalf of investors.
- This Sector Study shall be focused on the Secondary Capital Markets, and KSE-100 shall be used as the benchmark Index for analysis purpose.

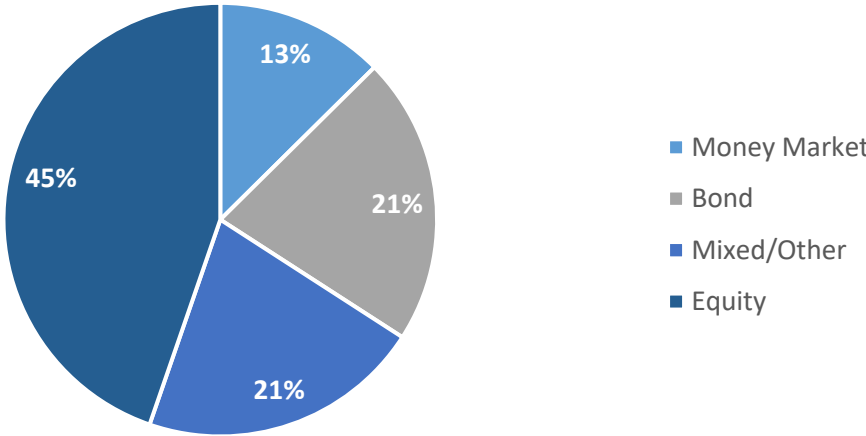
Overview

Worldwide Open-End Funds: Total Net Assets (USD bln)					
Region	2015	2016	2017	2018	2019
Americas	20,077	19,628	21,187	23,643	28,641
Europe	13,804	13,733	14,112	16,477	18,808
Asia & Pacific	4,114	4,770	5,198	6,421	7,256
Africa	146	122	146	155	177
Total	38,253	38,253	40,644	46,696	54,882

Asset Distribution | Regulated Open Funds (2019)



Global Asset Allocation (2019)

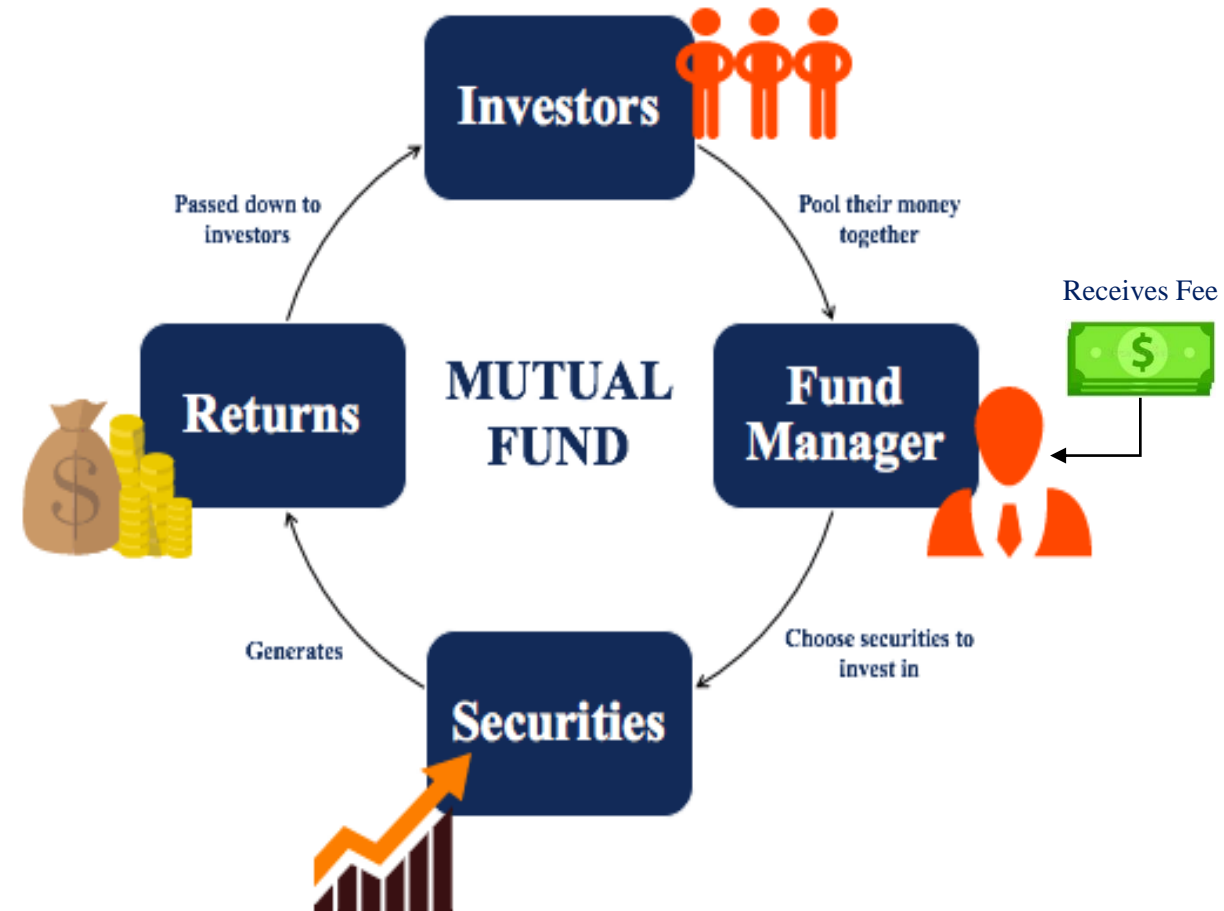


Assets Under Management Category Wise – Dec 2020 (INR crore)							
Investor Classification	Liquid/Money Market Funds	Growth/Equity Oriented Schemes	Income/Debt Oriented Schemes	Hybrid Schemes	ETFs (other than gold)	Other	Totals
Corporates	457,749	85,042	554,276	43,493	236,565	24,165	1,401,290
Individuals	91,654	334,319	319,884	199,412	12,513	30,510	988,293
Retail	12,029	514,213	32,402	72,719	3,386	25,957	660,706
Banks/FIs	21,442	699	20,419	219	3,699	286	46,764
Foreign Institutional Investors	27	3,441	1,000	821	74	60	5,423
Total	582,901	937,713	927,981	316,664	256,237	80,978	3,102,475



Overview

- A mutual fund is a type of financial vehicle that pools the money of investors with a common financial goal. The pooled funds are invested in securities such as stocks, bonds, money market instruments and other similar assets in order to meet predefined investment objectives.
- The income earned through these investments and the capital appreciation realized are shared by the investors in proportion to the number of units of the fund owned by them.
- Mutual funds give access to small or individual investors access to diversified and professionally managed portfolios that match their specific investment needs. In return for their management and investment services, fund managers receive compensation usually known as a fee.
- In addition, mutual funds also offer liquidity as open-ended funds can be redeemed at any point, while close-ended funds can be sold in the secondary market.

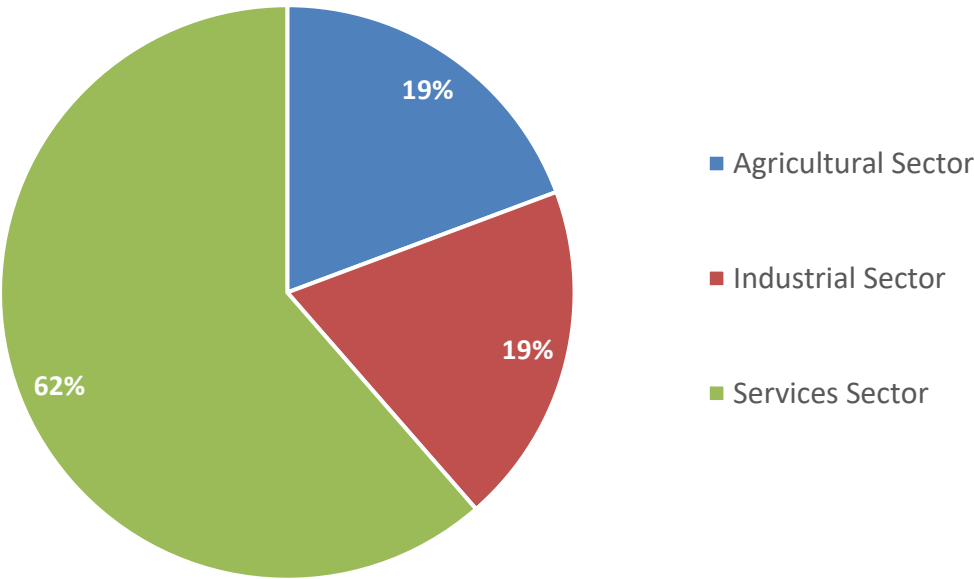


MUTUAL FUNDS | LOCAL INDUSTRY

GDP Break Up

- Pakistan's GDP shrunk by 0.38% in FY20 and stood at PKR~12,532bln as compared to PKR~12,580bln in FY19.
- The top 5 sectors in terms of contribution to GDP are (i) Wholesale & Retail Trade, (ii) Transport, Storage & Communication, (iii) Other Private Services, (iv) Livestock, and (v) Large Scale Manufacturing.

Sectoral Shares in GDP (FY20)



FY20 Sector Wise GDP Break-Up (%)	
Crops	6.81
Livestock	11.69
Forestry	0.41
Fishing	0.40
Total Agricultural Sector	19.31
Mining and Quarrying	2.51
Large Scale Manufacturing	9.50
Small Scale Manufacturing	2.04
Slaughtering	0.94
Electricity Generation + Distribution & Gas Distribution	1.76
Construction	2.53
Total Industrial Sector	19.28
Wholesale & Retail Trade	18.17
Transport, Storage & Communication	12.31
Finance & Insurance	3.60
Housing Services	6.98
General Government Services	8.60
Other Private Services	11.75
Total Services Sector	61.41

Note: GDP value is at constant basic prices of 2005-06

Macro Economic Indicators

	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	1HFY21
Average Inflation Rate (CPI)	11.90%	11.00%	7.40%	8.60%	4.50%	2.90%	4.20%	3.90%	7.30%	10.70%	8.74%
Average KIBOR	13.45%	12.33%	9.84%	9.88%	8.85%	6.49%	6.11%	6.39%	10.43%	11.95%	7.22%
Monetary Policy Rate (MPR)	13.70%	12.41%	9.91%	9.75%	8.75%	6.04%	5.75%	5.95%	9.69%	11.75%	7.00%
PKRV	13.00%	11.91%	9.63%	9.75%	8.67%	6.34%	5.95%	6.26%	10.20%	11.79%	7.15%
Average Exchange Rate	86.31	89.24	96.83	102.84	101.47	104.37	104.78	110.11	136.45	158.40	164.11
(USD mln)	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	1HFY21
Current Account Balance	214	-4,658	-2,496	-3,130	-2,815	-4,961	-12,270	-19,195	-13,434	-2,970	1,131
Exports	25,369	24,718	24,802	25,078	24,090	21,972	22,003	24,768	24,257	22,507	11,803
Imports	35,796	40,370	40,157	41,668	41,357	41,118	48,001	55,671	51,869	42,417	23,207
Trade Balance	-10,427	-15,652	-15,355	-16,590	-17,267	-19,146	-25,998	-30,903	-27,612	-19,910	-11,404
Foreign Exchange Reserve	18,244	15,289	11,020	14,141	18,699	23,099	21,403	16,384	14,482	18,886	20,512

Types of Mutual Funds

- **Open-Ended Mutual Funds:** These are mutual funds which continuously create new units and redeem issued units on demand. Units of the fund can be bought or redeemed at the prevailing Net Asset Value (NAV).
- **Close-Ended Mutual Funds:** These funds have a fixed number of shares like a public company and are floated through an IPO. Once issued, they can be bought and sold in the secondary market at market rates. There are currently no close-ended mutual funds in Pakistan.
- **Voluntary Pension Funds:** It is a personalized, defined, savings-cum-investment vehicle for providing comprehensive framework for life after retirement. It is a system established by an employer to expedite and arrange the investment of employees' retirement funds
- High level of returns along with significant new investment in mutual funds led to a large increase in Assets Under Management (AUMs) during 2HCY20.

Type of Fund (PKR bln) As at	Dec'16	Dec'17	Dec'18	Dec'19	Dec'20
Open-end	563	537	552	651	920
Close-end	2	2	1	-	-
Voluntary Pension	22	24	26	30	35
AUMs	587	563	579	681	955

Type of Fund (PKR bln) As at	Jun'16	Jun'17	Jun'18	Jun'19	Jun'20
Open-end	443	581	580	513	742
Close-end	2	2	2	1	-
Voluntary Pension	19	25	26	26	31
AUMs	464	608	608	540	773

Market Share

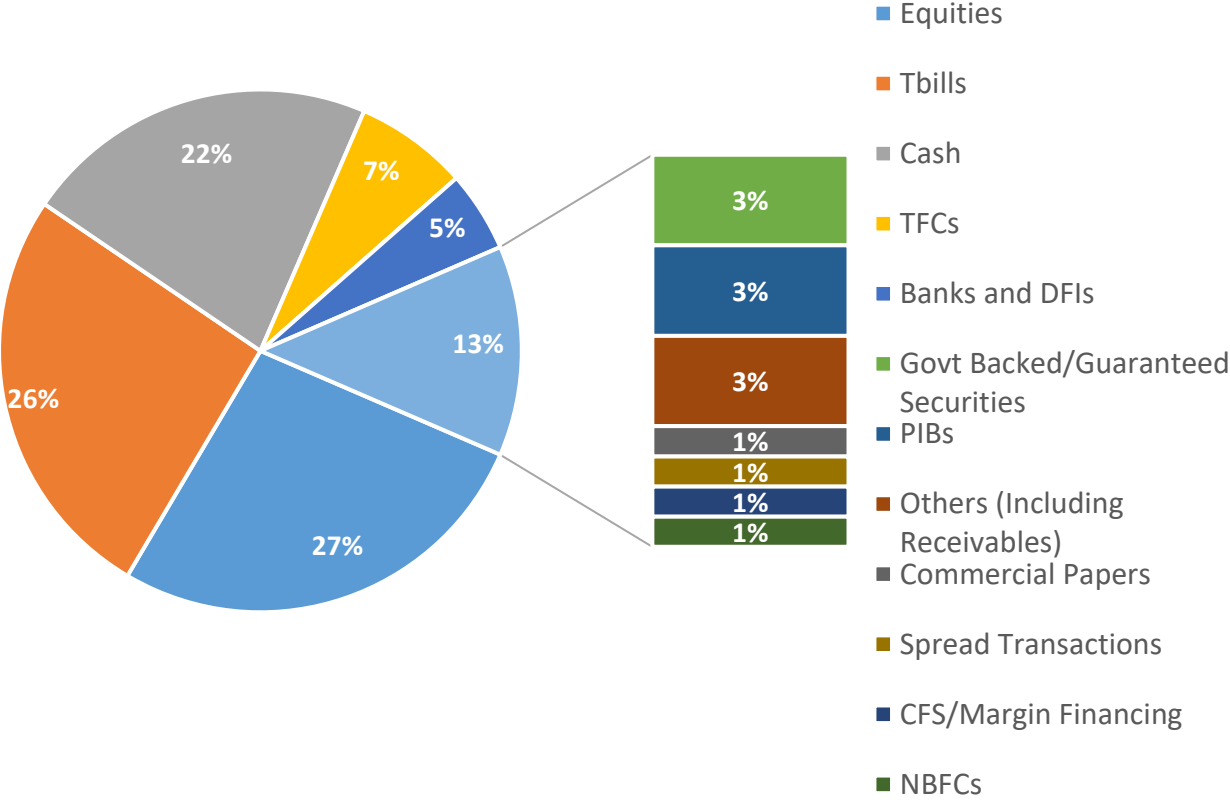
Mutual Funds Industry - Assets Under Management

(Open End & VPS, excluding Fund of Funds) - PKR bln

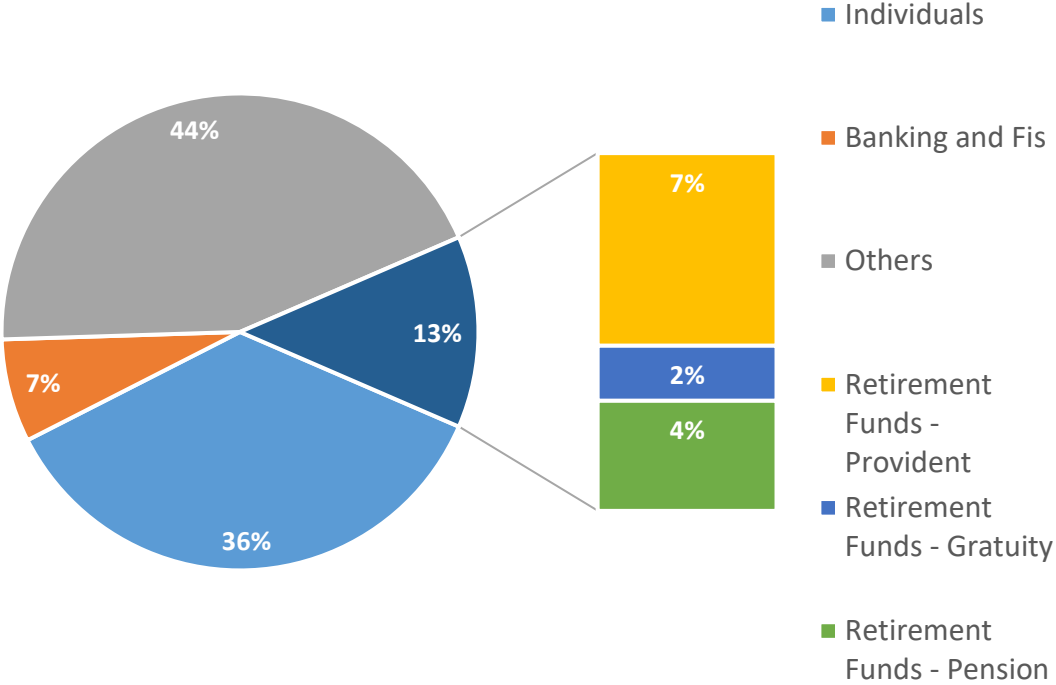
S. No	Asset Management Company	Dec-20		Jun-20	Dec-19	Jun-19	Dec-18
		Market Share	AUMs	AUMs	AUMs	AUMs	AUMs
1	NBP Fund Management Limited	17.1%	163.4	126.9	111.8	89.8	89.1
2	Al-Meezan Investment Management Limited	17.1%	163.0	152.2	123.2	91.3	88.0
3	UBL Fund Managers Limited	9.5%	90.6	78.3	62.8	52.3	62.3
4	MCB-Arif Habib Savings and Investments Limited	8.7%	82.7	66.2	58.2	44.3	47.2
5	National Investment Trust Limited	8.9%	85.2	68.6	75.0	67.5	75.9
6	ABL Asset Management Limited	7.0%	66.7	58.6	53.1	37.6	39.5
7	HBL Asset Management Limited	8.2%	78.3	57.7	46.8	42.7	51.8
8	Alfalsh GHP Investment Management Limited	5.2%	49.9	40.1	42.0	31.6	31.4
9	Atlas Asset Management Limited	4.2%	40.4	29.7	30.9	25.7	29.1
10	Lakson Investments Limited	2.3%	21.9	18.9	20.5	15.6	19.6
11	Faysal Asset Management Limited	5.0%	47.4	30.1	15.7	8.5	9.3
12	JS Investment Limited	2.5%	23.8	18.9	20.9	19.2	18.5
13	Al Habib Asset Management Limited	2.7%	25.5	14.1	7.0	3.4	3.8
14	AKD Investment Management Limited	0.7%	6.5	4.6	5.4	4.4	5.1
15	Pak Oman Asset Management	0.7%	6.6	4.4	4.3	3.3	5.1
16	AWT Investment Management Limited	0.2%	2.2	2.7	2.7	1.8	1.7
17	786 Investments Limited	0.1%	0.6	0.6	0.6	0.7	0.7
18	BMA Asset Management Company Limited	0.1%	0.4	0.2	0.3	0.3	1.3
19	First Capital Investments Limited	0.0%	0.1	0.1	0.1	0.1	0.1
Total		100%	955.3	772.8	681.3	539.9	579.3

Asset Allocation

Asset Allocation (Nov 2020)

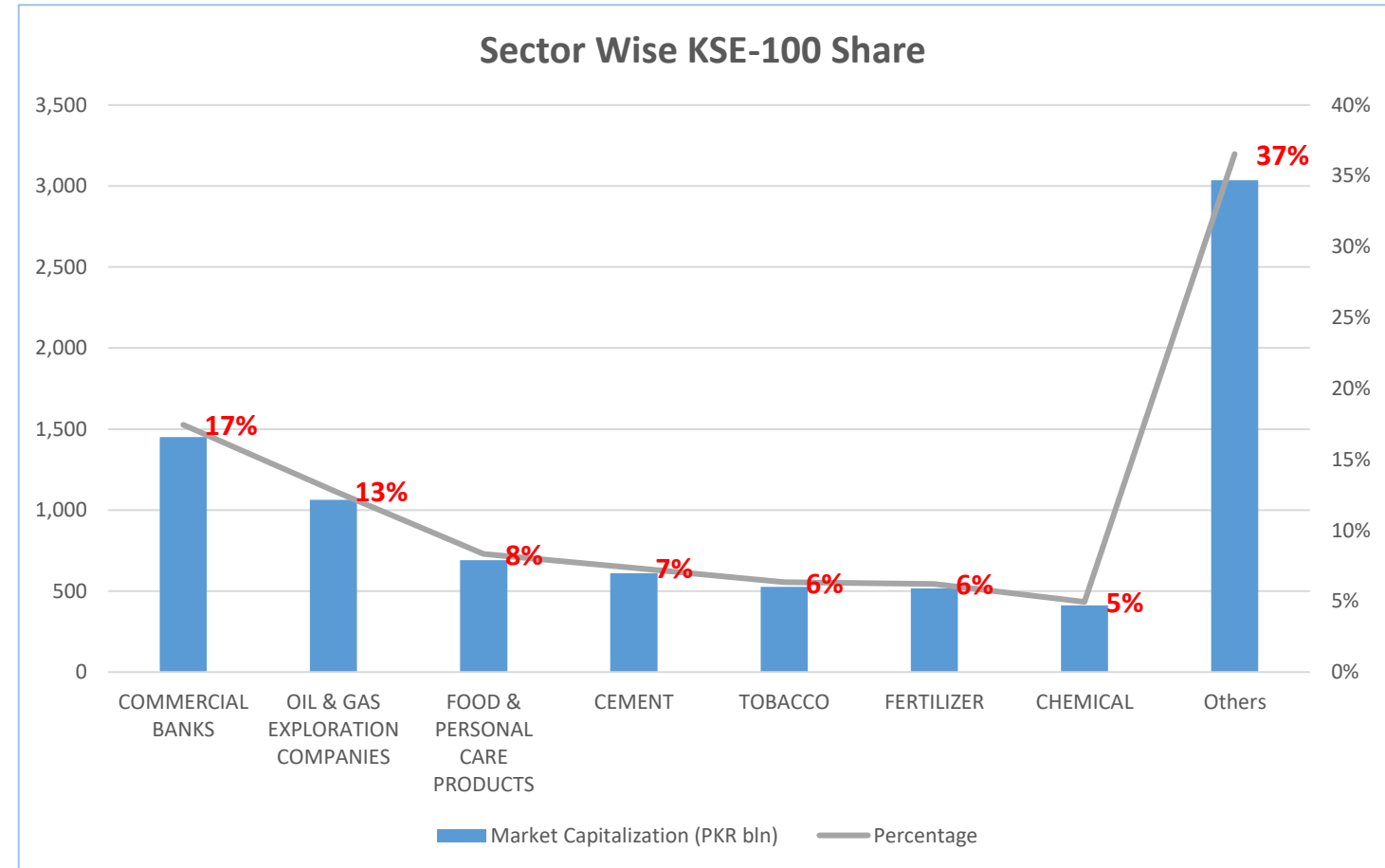


Unit Holder Pattern (Nov-2020)



KSE-100 | Sectoral Composition

- This data is based on market capitalization of PKR~8.3trn (USD~52bln) as on 8th Jan, 2021.
- Top seven (7) Sectors contribute ~63% to the total Market Capitalization of KSE-100 Index in which Commercial Banks take the lead.



MUTUAL FUNDS | LOCAL INDUSTRY

KSE-100 Returns | Monthly & Annual

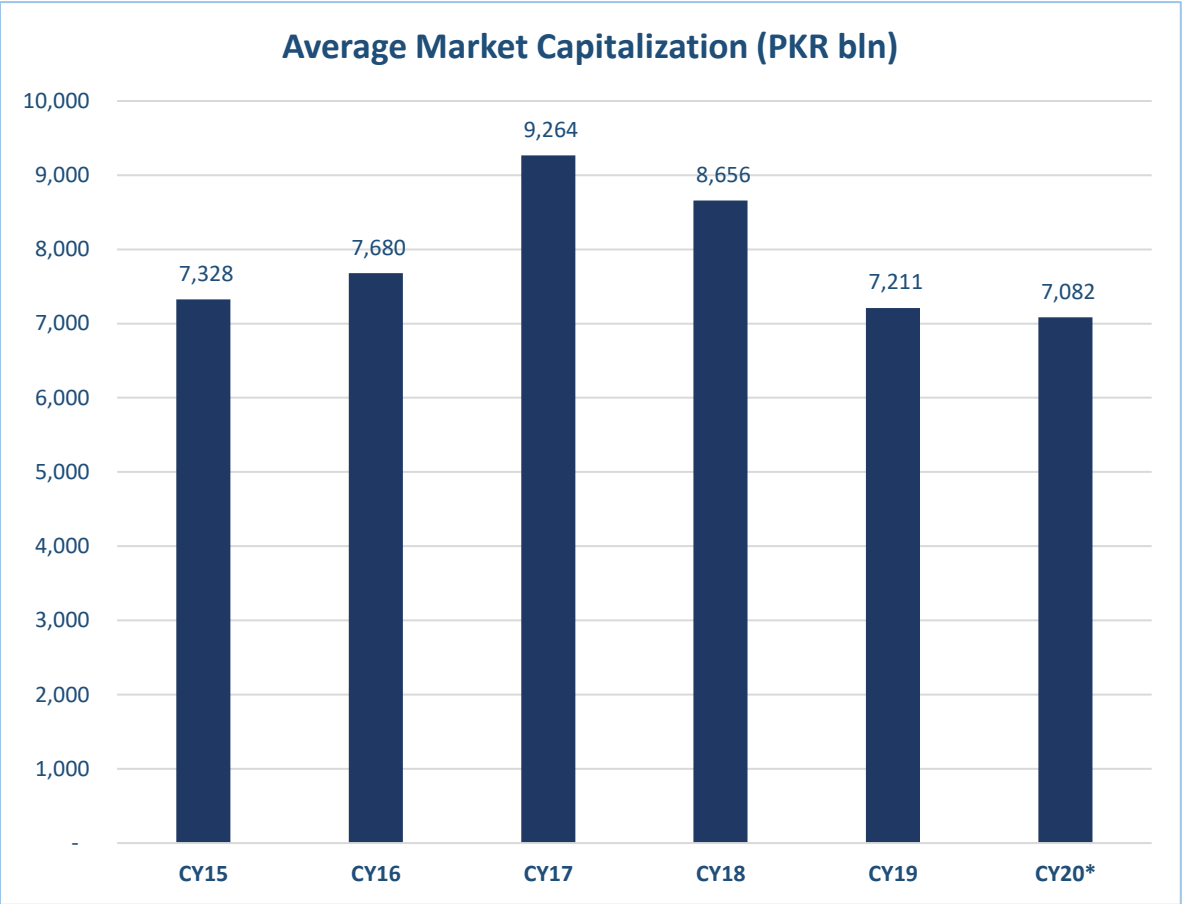
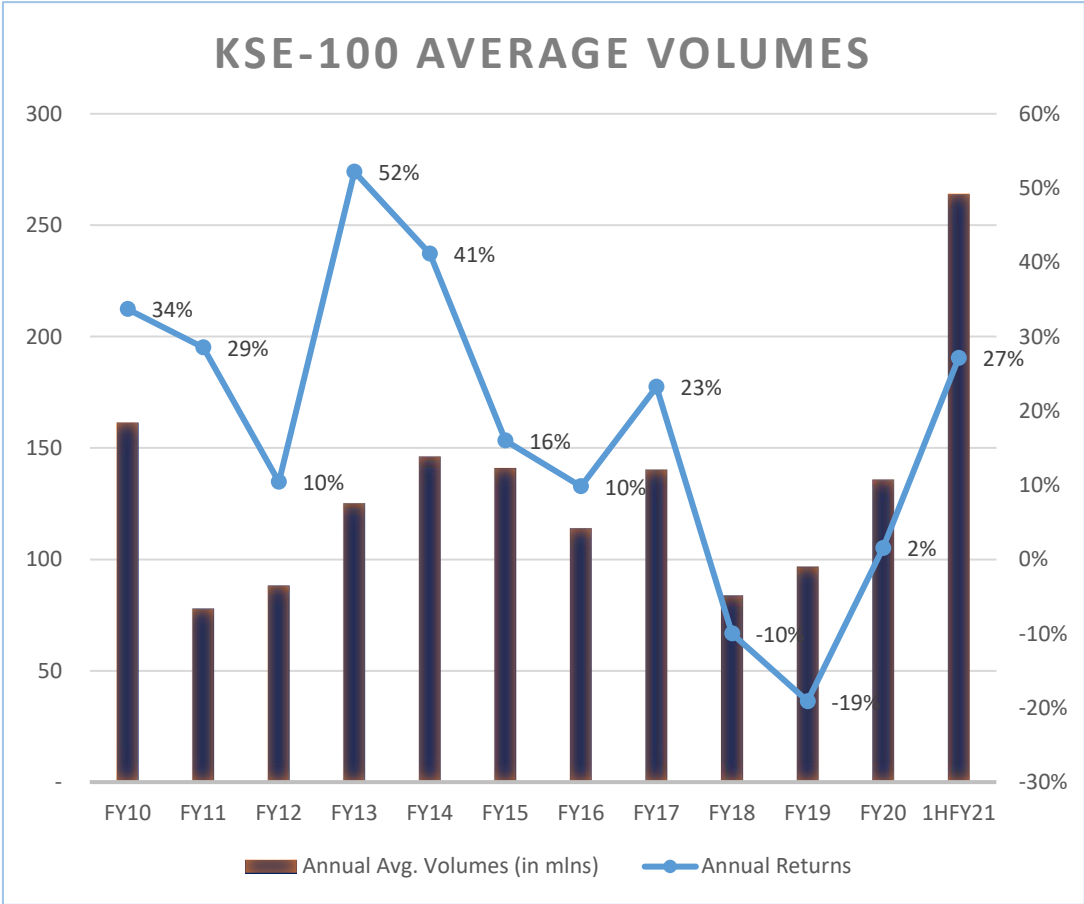
KSE 100 Index	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	1HFY21
Index Value	12,496	13,801	21,006	29,653	34,399	37,784	46,565	41,911	33,902	34,422	43,755
Returns (%)	29%	10%	52%	41%	16%	10%	23%	-10%	-19%	2%	27%

KSE 100 Index	CY11	CY12	CY13	CY14	CY15	CY16	CY17	CY18	CY19	CY20
Index Value	11,348	16,905	25,261	32,131	32,816	47,807	40,471	37,067	40,735	43,755
% Change	-4%	49%	49%	27%	2%	46%	-15%	-8%	10%	7%

KSE 100 Index	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20
Index Value	31,938	29,672	32,079	34,204	39,288	40,735	41,631	37,984	29,232	34,112	33,931	34,422	39,258	41,111	40,571	39,888	41,069	43,755
% Change	-6%	-7%	8%	7%	15%	4%	2%	-9%	-23%	17%	-1%	1%	14%	5%	-1%	-2%	3%	7%

Note: Index Values are the closing values on the last trading day of each month/year

MARKET VOLUMES & CAPITALIZATION



*CY20 Market Capitalization is till 6th Nov, 2020

Market Performance

- The adjacent table shows performance ratios for the KSE 100 index for the latest calendar year.
- The price to earnings ratio of the index clocked in at 10.95 per share. Meanwhile, the price to book ratio stood at 1.28 per share. In addition, the Earnings Per Share currently stand at PKR~4,164 per share.
- The return of the KSE 100 index over the 12 month period of CY20 stood at 5.97%.
- Moreover, the total market capitalization of the entire stock exchange stands at PKR~8,298bln (USD~52bln).

KSE 100 Indicators	
Ratios	CY20
Price to Earnings (P/E)	10.95
Price to Book (P/B)	1.28
Earnings Per Share (EPS)	4,164
1 Year Return	5.97%
Market Capitalization* (PKR bln)	8,298
Market Capitalization* (USD bln)	52

** Market Capitalization is for entire market while other ratios/return is for KSE 100 index*

T-Bills & PIBs

CY20 T-Bills Auction	Average Yield		
Total Realized Amount (PKR bln)	3M	6M	12M
9,536	8.72%	8.65%	8.63%

CY20 PIBs Auction			
Tenure	Amount Accepted (PKR bln)	Coupon Rate	Weighted Average Yield
3 Year	400	7.00%	8.42%
5 Year	260	7.50%	8.88%
10 Year	121	8.00%	9.13%
15 Year	93	10.50%	10.04%
20 Year	46	11.00%	10.65%

Mutual Funds | Categories

- **Equity Scheme:** An equity scheme or equity fund is a fund that invests in Equities more commonly known as stocks. The objective of an equity fund is long-term growth through capital appreciation, although dividends and capital gain realized are also sources of revenue.
- **Balanced Scheme:** These funds provide investors with a single mutual fund that invests in both stocks and debt instruments and with this diversification aimed at providing investors a balance of growth through investment in stocks and of income from investments in debt instruments.
- **Asset Allocation Fund:** These Funds may invest its assets in any type of securities at any time in order to diversify its assets across multiple types of securities & investment styles available in the market.
- **Fund of Fund Scheme:** Fund of Funds are those funds, which invest in other mutual funds. These funds operate a diverse portfolio of equity, balanced, fixed income and money market funds (both open and closed ended).
- **Shariah Compliant (Islamic) Scheme:** Islamic funds are those funds which invest in Shariah Compliant securities i.e. shares, Sukuk, Ijara sukuks etc. as may be approved by the Shariah Advisor of such funds. These funds can be offered under the same categories as those of conventional funds.
- **Capital Protected Scheme:** In this type of scheme, the payment of original investment is guaranteed with any further capital gain which may accrue at the end of the contractual term of the Fund. Such funds are for a specific period.
- **Index Tracker Scheme:** Index funds invest in securities to mirror a market index, such as the KSE 100. An index fund buys and sells securities in a manner that mirrors the composition of the selected index. The fund's performance tracks the underlying index's performance.
- **Money Market Scheme:** Money Market Funds are among the safest and most stable of all the different types of mutual funds. These funds invest in short term debt instruments such as Treasury bills and bank deposits.

MUTUAL FUNDS | LOCAL INDUSTRY

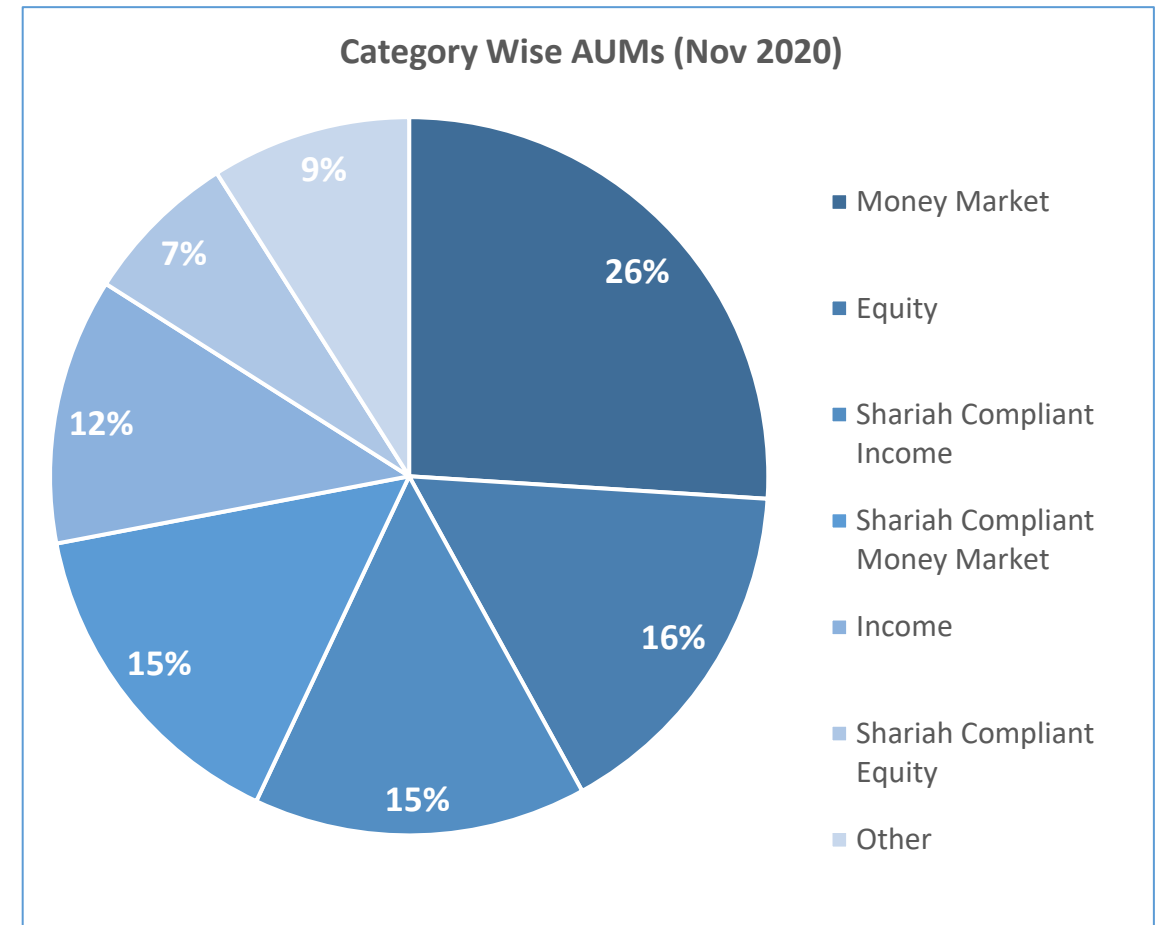
Mutual Funds | Categories

- **Income Scheme:** These funds focus on providing investors with a steady stream of fixed income. They invest in short term and long term debt instruments like TFCs, government securities like T-bills/ PIBs, or preference shares.
- **Aggressive Fixed Income Scheme:** The aim of aggressive income fund is to generate a high return by investing in fixed income securities while taking exposure in medium to lower quality of assets also.
- **Commodity Scheme:** These schemes enable small investors to take advantage of gains in commodities such as gold through pooled investments. They invest at least 70%of their assets in commodity futures contracts, which include both cash-settled and deliverable contracts.
- The tables below show the number of funds in the categories that are rated by PACRA.

Categories	Dec'18		Jun'19		Dec'19		Jun'20		Dec'20	
Equity	27	25%	27	21%	27	19%	27	15%	27	16%
Islamic Equity	17	11%	17	10%	18	9%	19	7%	19	7%
Asset Allocation	13	2%	13	2%	14	1%	15	1%	15	2%
Islamic Asset Allocation	13	5%	11	3%	11	2%	12	2%	12	2%
Balanced	5	1%	5	1%	5	1%	5	1%	5	1%
Others	150	56%	168	63%	193	68%	195	74%	195	72%
Total	225	100%	241	100%	268	100%	273	100%	273	100%

Category Wise AUM Break Up

Assets Under Management Break Up (Nov 2020)	
Category	AUMs (PKR bln)
Money Market	248
Equity	153
Shariah Compliant Income	143
Shariah Compliant Money Market	143
Income	115
Shariah Compliant Equity	67
Other	86
Total AUMs	956



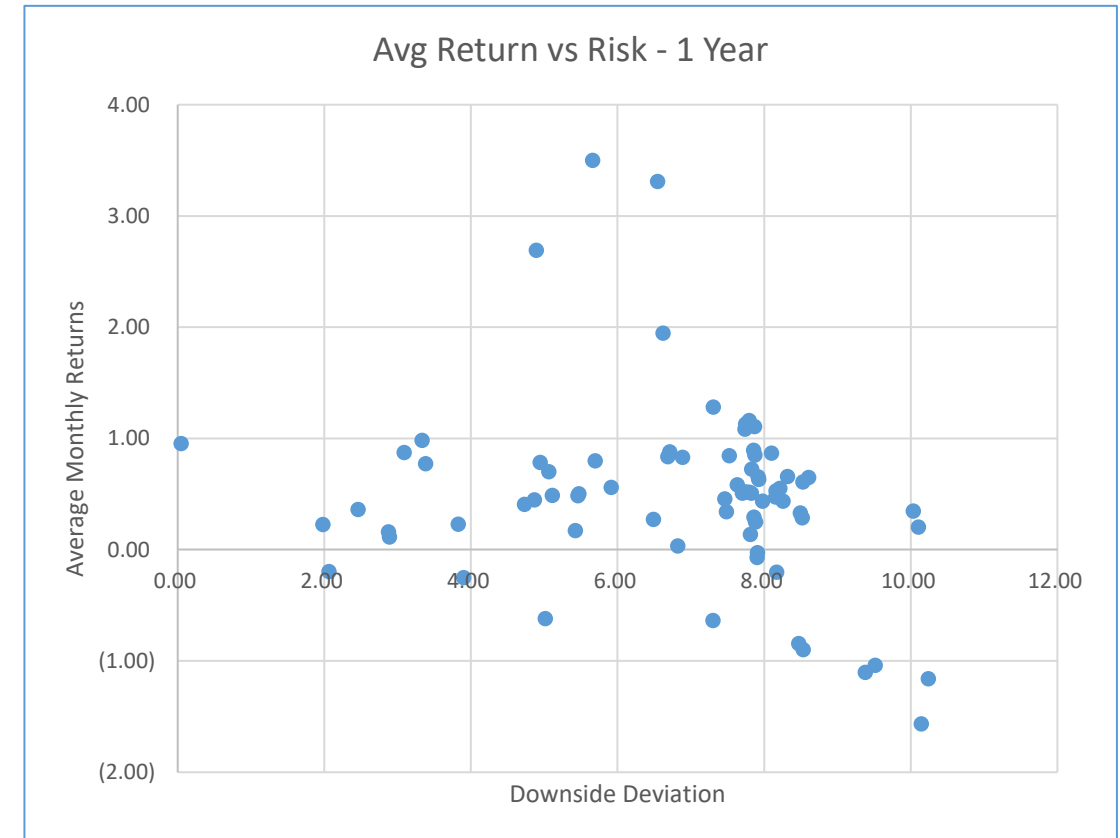
Industry Returns

Weighted Average Return of Industry											
Category	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20
Equity	11.59%	-0.46%	-18.75%	11.14%	1.73%	1.59%	12.90%	10.78%	6.68%	5.87%	10.77%
Money Market	12.81%	12.46%	13.77%	14.16%	7.19%	6.86%	6.11%	5.44%	6.61%	5.98%	6.47%
Income	11.59%	11.87%	22.51%	23.17%	6.04%	7.98%	3.73%	6.47%	7.24%	6.43%	6.12%
Shariah Compliant Money Market	12.36%	11.76%	11.66%	8.93%	7.82%	7.64%	6.56%	6.08%	6.04%	5.99%	5.92%
Shariah Compliant Income	11.93%	12.04%	11.67%	8.98%	5.31%	7.55%	7.14%	7.40%	6.01%	5.80%	5.80%
Shariah Compliant Equity	2.84%	-8.19%	-23.74%	21.45%	0.00%	0.14%	13.43%	5.22%	-0.18%	-0.88%	4.02%

MUTUAL FUNDS | LOCAL INDUSTRY

Downside Deviation – 1 Year

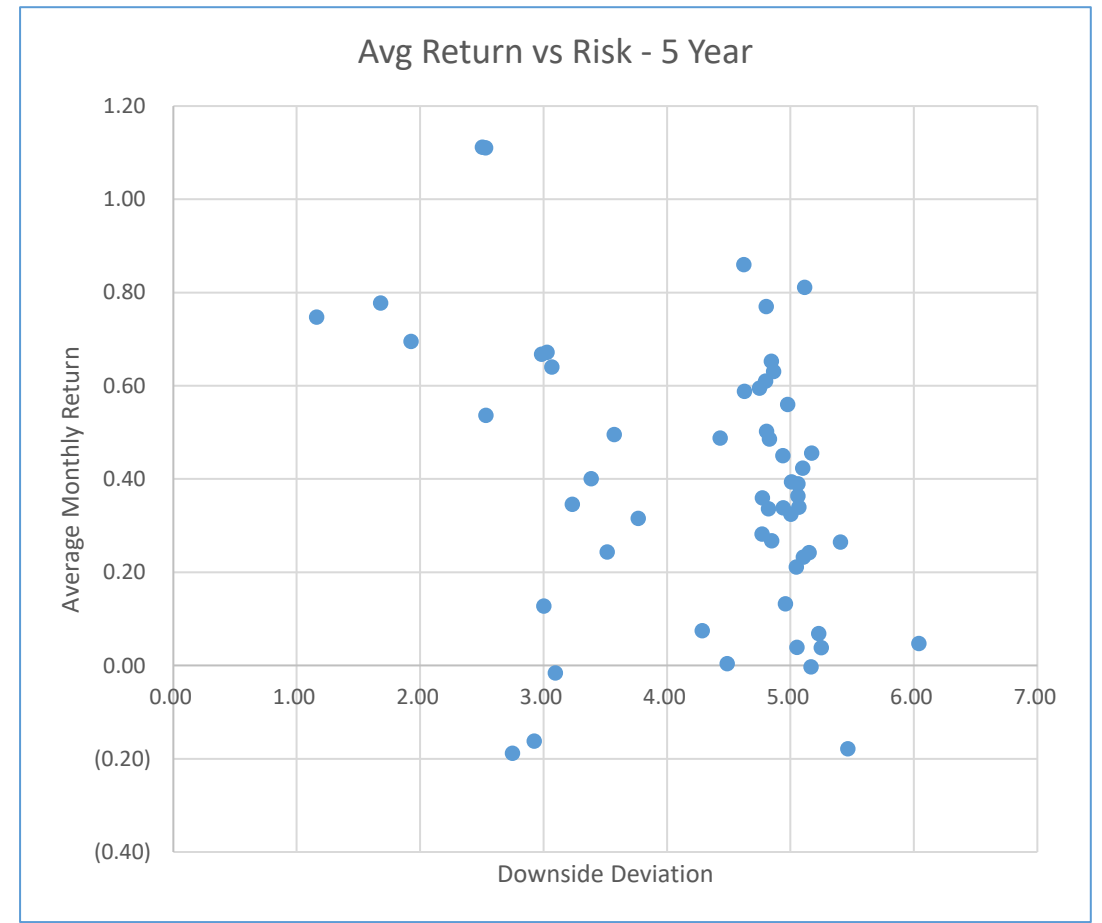
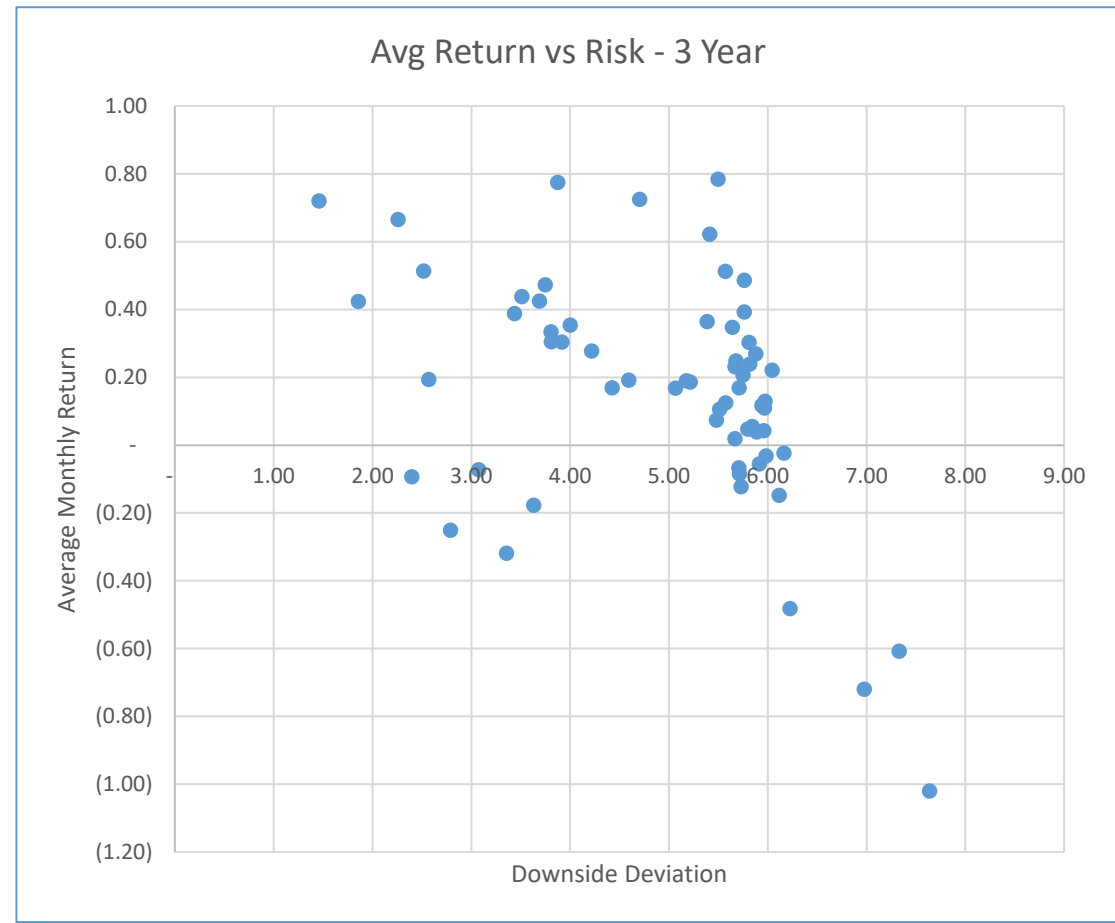
- Downside deviation is a measure of downside risk which is calculated using the returns which fall below a minimum benchmark or Minimum Acceptable Return (MAR).
- The downside deviation can then be used to calculate a Risk Adjusted Return (RAR) for the mutual funds.
- An advantage of downside risk is that it only takes into account negative deviations from the acceptable return threshold while other measures such as standard deviation incorporate both positive and negative deviations from the average.
- Another benefit is that this measure can be tailored for various risk profiles by adjusting the Minimum Acceptable Return (MAR).
- As can be seen in the adjacent graph for 1-year period, the large number of mutual funds are clustered around a downside deviation of 8. Meanwhile, the graphs for 3-year period and 5-year period (in the next slide) show mutual funds clustered around downside deviation of 6 and 5, respectively.
- This indicates that perhaps longer-term investment in mutual funds is less risky as compared to a short-term investment.



Note: Downward deviation calculation for 1 year period is based on 75 mutual funds in the categories rated by PACRA.

MUTUAL FUNDS | LOCAL INDUSTRY

Downside Deviation – 3 Year & 5 Year



Note: Downward deviation calculation for 3-year and 5-year periods is based on 64 and 56 mutual funds, respectively in the categories rated by PACRA.

Regulatory Framework

- Mutual funds are regulated by the Securities and Exchange Commission of Pakistan (SECP) with the objective of protection of investors and development of the capital market. SECP implements a transparent and rigorous process before issuing licenses to fund management companies. In addition, the SECP also carries out continuous monitoring of mutual funds.
- The following regulations and rules are applicable to mutual funds:
 - Non-Banking Finance Companies (Establishment & Regulation) Rules, 2003
 - Non-Banking Finance Companies & Notified Entities Regulations, 2008
 - Part VIII of The Companies Ordinance, 1984
 - Circulars and Directives issued by the SECP under the provisions of the Ordinance.
- Mutual funds are established by a Trust Deed between the AMC and the trustee under the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003. Under the regulations an independent trustee registered with the SECP has custody of all mutual fund assets.
- All Mutual Funds are obliged to appoint an independent trustee, which can be a scheduled bank having a minimum of 'AA-' rating and has been in business for at least five years or a subsidiary of scheduled bank having a minimum of AA- rating or an investment finance company having a minimum of AA- rating or a central depository company.
- The trustee is obligated to ensure that: (i) The asset management company invests the fund's assets in accordance with the approved investment policy and authorized investments of the mutual fund; (ii) All mutual fund property including cash is under its control and is registered in the name of, or to the order of the trustee; and (iii) Fund property is held in trust for the unit holders in accordance with the rules, regulations and provisions of the constitutive documents.



MUTUAL FUNDS | LOCAL INDUSTRY

SWOT Analysis

- Strong regulatory oversight through SECP and PSX.
- Offers smaller investors access to professionally managed and diversified portfolios.
- There is a large variety of funds and investors can select according to their specific objectives.

Strengths

Weaknesses

- Any kind of uncertainty, be it political, social or economic can have a negative impact on the capital market and in turn on the mutual funds.
- The cost of professional management can be high, which reduces the overall payout for investors.

- Uncertainty in the market and amongst investors due to second wave of COVID-19.
- Delay in availability of vaccination could hamper economic recovery.

Threats

Opportunities

- Introduction of new products, such as Exchange Traded Funds.
- The economy is in recovery phase which bodes well for mutual funds as investor confidence is returning.

MUTUAL FUNDS | Outlook & Future Prospects

Outlook: Stable

- The domestic economy has started to gradually recover from the impact of the COVID-19 pandemic which slowed down industrial activities and brought various businesses to a halt.
- Industrial activity has picked up in various sectors with the Large Scale Manufacturing Industries output increasing ~7.41% YoY during the first five months of FY21. The sectors which have contributed to this growth are textiles, food & beverages, pharmaceuticals and chemicals. Food & Beverage sector holds a sizable portion of the Index market capitalization, therefore is a positive sign for the Sector.
- As a result, the stock market has also gradually moved in a positive direction as the economic recovery has picked up due to which investor confidence in the market has also increased. KSE-100 Index return for the month of Dec'20 was recorded at ~7% and is expected to continue growth trajectory in the absence of any major uncertainty. Following a sluggish movement of over two fiscal years, the KSE-100 benchmark has crossed over 45,000 points (*12-Jan-21*).
- There has been significant growth in the mutual funds market in recent months as total industry AUMs have risen at a quick pace and reached PKR~955bln in Dec-2020. This growth in AUMs is attributable to both higher level of returns as well as new investments in mutual funds during the period.
- The decision taken by the State Bank of Pakistan (SBP) to lower the policy rate by 625bps to 7% in the last quarter of FY20 has lowered the finance costs.
- The inflation level in the country has also declined. The average inflation rate during the 1HFY21 stood at ~8.74% as compared to an average inflation rate of ~10.7% during FY20. Moreover, the exchange rate is also expected to remain stable in the near future.
- However, there is still significant uncertainty in the market due to second wave of COVID-19 across the globe. While global capital markets are also showing signs of recovery, a strict lockdown or closure of business activities across major economies can have an indirect impact on Pakistan's market where the country's export destinations are concentrated.

- Pakistan Bureau of Statistics (PBS)
- Pakistan Stock Exchange (PSX)
- State Bank of Pakistan (SBP)
- Federal Board of Revenue (FBR)
- Mutual Funds Association of Pakistan (MUFAP)
- Securities & Exchange Commission of Pakistan (SECP)
- Association of Mutual Funds in India
- PACRA Database
- ICI Factbook
- Bloomberg
- KSE Stocks
- Statista

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