



Mutual Funds | Stability

An Overview

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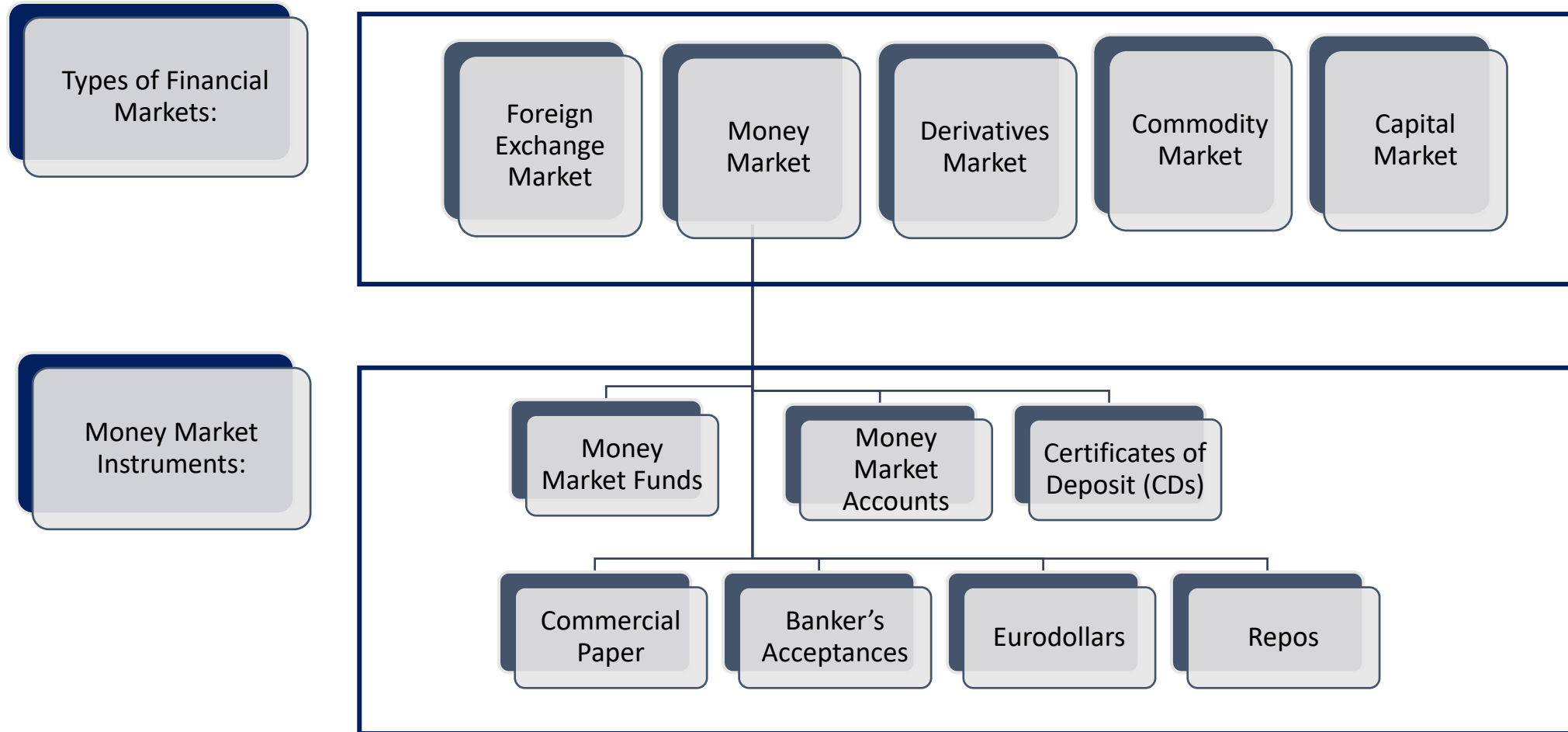


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MUTUAL FUNDS | INTRODUCTION

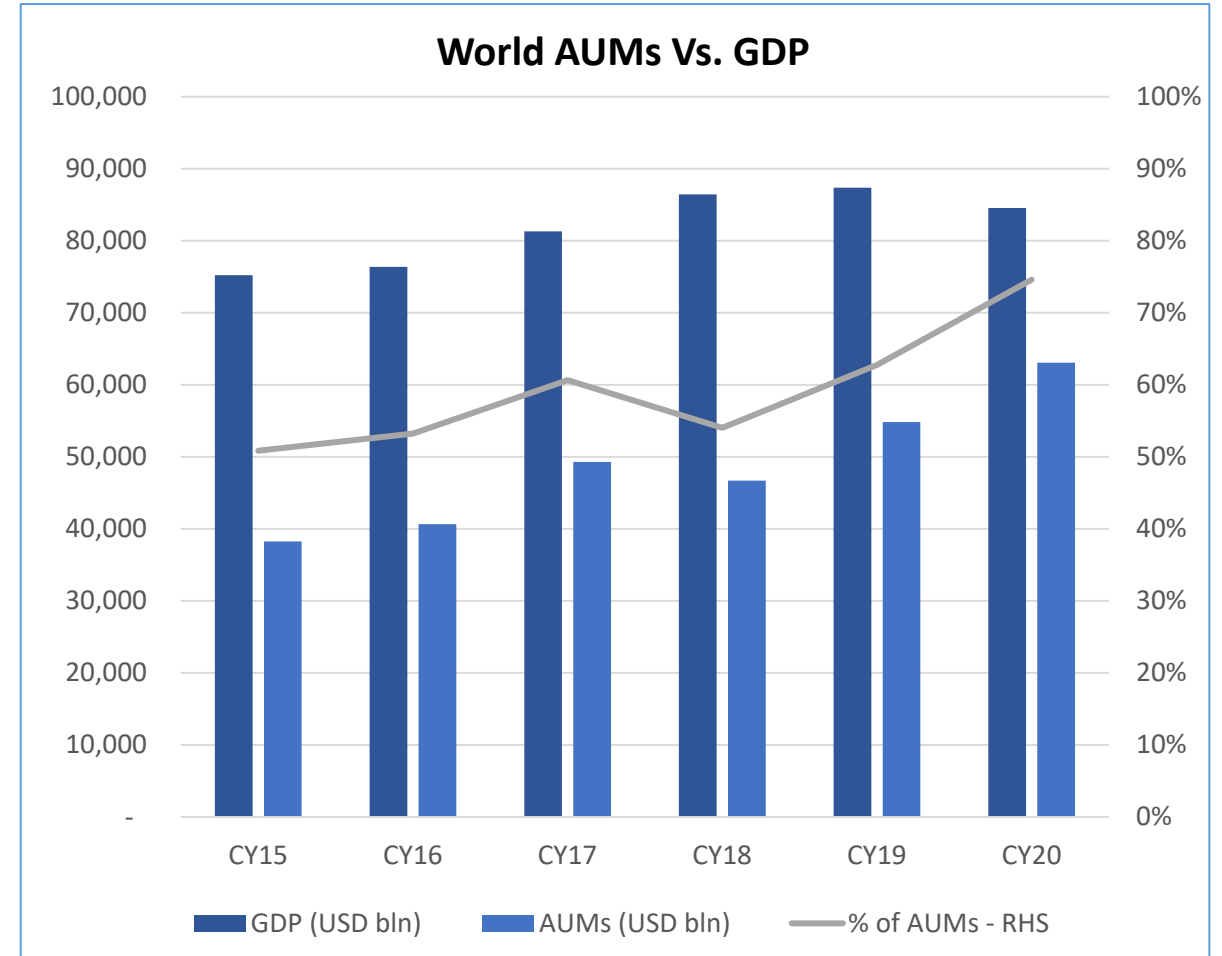
Types of Financial Markets



World AUMs

| Period | CY15 | CY16 | CY17 | CY18 | CY19 | CY20 |
|----------------|--------|--------|--------|--------|--------|--------|
| AUMs (USD bln) | 38,253 | 40,644 | 49,300 | 46,695 | 54,833 | 63,059 |
| Growth | 0.3% | 6% | 21% | -5% | 17% | 15% |

- Global Open-End Fund Assets increased by ~15% YoY in CY20 clocking in at USD~63trn (~75% of the global GDP). During 1QCY20, there was ~13% decline in Global AUMs due to the negative impact of the COVID-19 pandemic. The global economy and mutual funds industry began to recover gradually and Global AUMs rose ~32% in the last three quarters.
- The growth rate of the AUMs Market has historically remained volatile. Average CAGR for the Open-End Fund Assets is recorded at ~9% from CY15 to CY20.
- Based on the type of fund, the highest concentration of AUMs remains in Equity Funds, and based on regions, the highest portion of global Open-End Fund assets vests in Americas.



Region Wise Asset Allocation & Number of Funds

Worldwide Open-End Funds: Total Net Assets (USD bln)

| Region | CY15 | CY16 | CY17 | CY18 | CY19 | CY20 |
|----------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Americas | 19,628 | 22,294 | 24,899 | 23,643 | 28,641 | 32,326 |
| Europe | 13,733 | 14,974 | 17,722 | 16,477 | 18,808 | 21,756 |
| Asia & Pacific | 4,770 | 5,560 | 6,498 | 6,421 | 7,256 | 8,791 |
| Africa | 122.068 | 154 | 182 | 154 | 178 | 186 |
| Total | 38,253 | 42,982 | 49,301 | 46,695 | 54,883 | 63,059 |

Worldwide Open-End Number of Funds

| Region | CY15 | CY16 | CY17 | CY18 | CY19 | CY20 |
|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Americas | 25,001 | 25,698 | 26,570 | 27,714 | 28,733 | 31,044 |
| Europe | 53,212 | 53,513 | 54,558 | 56,001 | 56,955 | 57,753 |
| Asia & Pacific | 26,526 | 29,396 | 30,196 | 32,996 | 35,260 | 35,974 |
| Africa | 1,327 | 1,520 | 1,626 | 1,567 | 1,610 | 1,686 |
| Total | 106,066 | 110,127 | 112,950 | 118,278 | 122,558 | 126,457 |

Worldwide Open-End Funds: Total Net Assets (%)

| Region | CY15 | CY16 | CY17 | CY18 | CY19 | CY20 |
|----------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Americas | 51% | 52% | 51% | 51% | 52% | 51% |
| Europe | 36% | 35% | 36% | 35% | 34% | 35% |
| Asia & Pacific | 12% | 13% | 13% | 14% | 13% | 14% |
| Africa | 0.3% | 0.4% | 0.4% | 0.3% | 0.3% | 0.3% |
| Total | 100% | 100% | 100% | 100% | 100% | 100% |

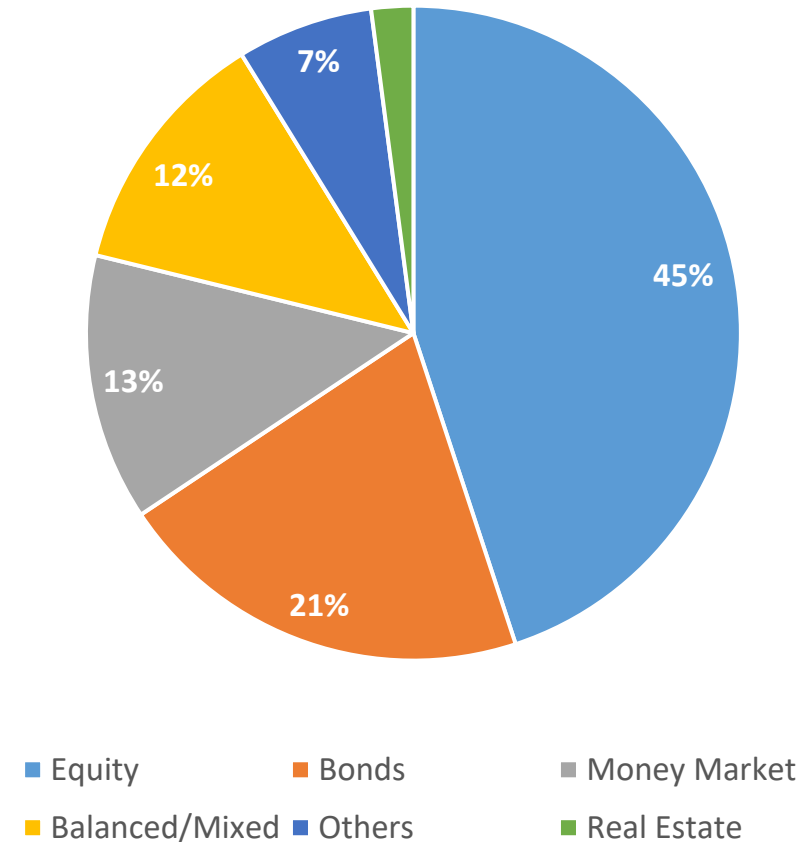
Worldwide Open-End Funds: Number (%)

| Region | CY15 | CY16 | CY17 | CY18 | CY19 | CY20 |
|----------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Americas | 24% | 23% | 24% | 23% | 23% | 25% |
| Europe | 50% | 49% | 48% | 47% | 46% | 46% |
| Asia & Pacific | 25% | 27% | 27% | 28% | 29% | 28% |
| Africa | 1.3% | 1.4% | 1.4% | 1.3% | 1.3% | 1.3% |
| Total | 100% | 100% | 100% | 100% | 100% | 100% |

Asset Allocation by Fund Type

- Global Open-End Fund Market is dominated by Long term Investments.
- Equity funds account for ~45% of the Global Open-End Fund Assets, followed by Bonds (~21%) and Money Market Funds (~13%).
- During CY20, Global Net sales of the Open-End Fund Market was recorded at USD~2.6trn (USD~2.2trn in CY19), up ~21% YoY basis.
- In terms of Asset Allocation, the highest increase in Global Open-End Funds Assets was witnessed in Money Market Funds increasing by ~20% YoY in CY20. These were followed by an increase of ~16% YoY in Equity Funds in CY20 and ~11% in Bonds YoY.

Asset Allocation | Fund Type | CY20



Regional Market | Asia & Pacific AUMs

| CY20 | | | | | | | | | | |
|------------------|------------|-------------|------------|------------|------------|------------|-------------|-------------|-----------|------------|
| USD bln | China | Australia | Japan | Korea | India | Taiwan | New Zealand | Philippines | Pakistan | TOTAL |
| AUMs | 2,655 | 2,463 | 2,393 | 615 | 402 | 156 | 94 | 7 | 6 | 8,791 |
| GDP | 15,660 | 1,320 | 4,911 | 1,587 | 2,593 | 636 | 194 | 367 | 284 | 27,550 |
| % of AUMs | 17% | 187% | 49% | 39% | 16% | 24% | 48% | 2% | 2% | 32% |

- Asia & Pacific accounts for ~14% of the Global Open-End Fund Assets and ~28% of the Number of Global Open-End Funds (Dec'20).
- In terms of GDP, Asia & Pacific makes up ~30% of the Global GDP.
- China, Australia and Japan are the largest economies with reference to AUMs Market in the Asia & Pacific. India also has relatively low Open-End Fund Assets as a percentage of economy (USD~402bln, ~16% of its GDP).
- Pakistan has the lowest Open-End Fund Asset base among its regional players in Asia & Pacific, amounting to USD~6bln and ~2% of its GDP.

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 |

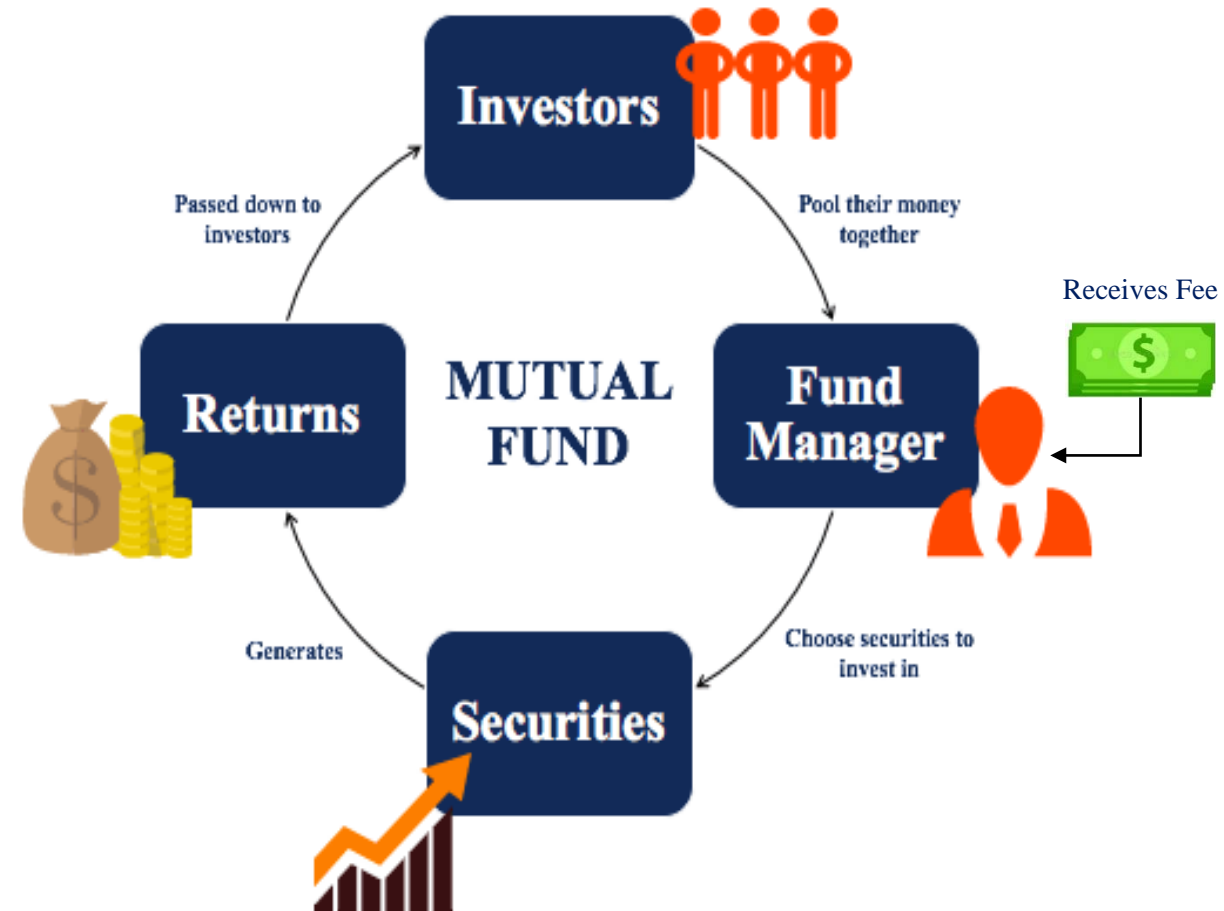
An Overview of Capital Markets

- 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 short-term, 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. Interest rates and yields of PIBs, Tbills, and KIBOR will be used as benchmark for analysis purpose.

MUTUAL FUNDS | LOCAL INDUSTRY

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.

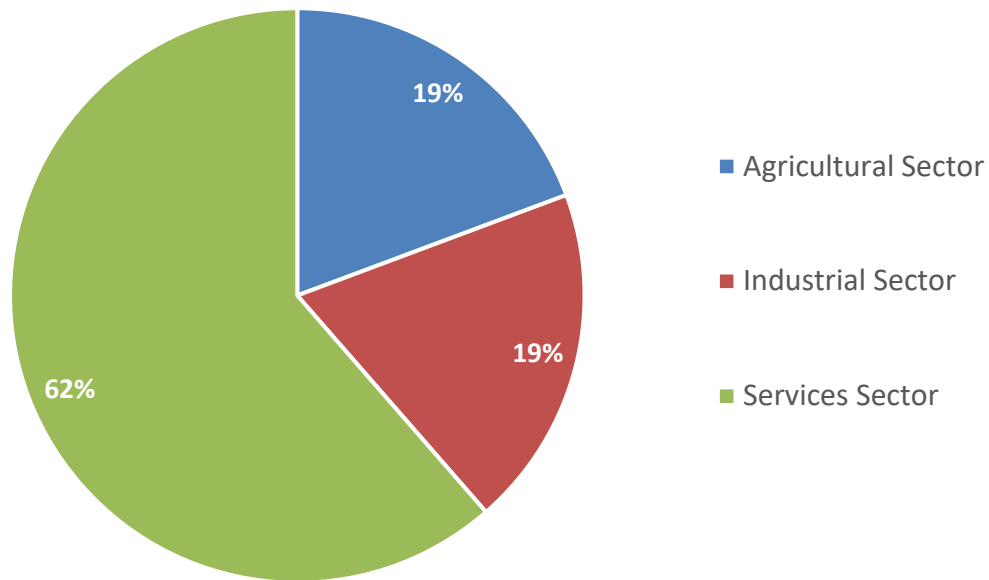


MUTUAL FUNDS | LOCAL INDUSTRY

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 | 9MFY21 |
|-------------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|---------------|
| Average Inflation Rate (CPI) | 11.90% | 11.00% | 7.40% | 8.60% | 4.50% | 2.90% | 4.20% | 3.90% | 7.30% | 10.70% | 8.36% |
| Average KIBOR | 13.45% | 12.33% | 9.84% | 9.88% | 8.85% | 6.49% | 6.11% | 6.39% | 10.43% | 11.95% | 7.34% |
| 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% | 7.19% |
| Average Exchange Rate | 86.31 | 89.24 | 96.83 | 102.84 | 101.47 | 104.37 | 104.78 | 110.11 | 136.45 | 158.40 | 162.21 |
| | | | | | | | | | | | |
| (USD mln) | FY11 | FY12 | FY13 | FY14 | FY15 | FY16 | FY17 | FY18 | FY19 | FY20 | 8MFY21 |
| Current Account Balance | 214 | -4,658 | -2,496 | -3,130 | -2,815 | -4,961 | -12,270 | -19,195 | -13,434 | -2,970 | -2,741 |
| Exports | 25,369 | 24,718 | 24,802 | 25,078 | 24,090 | 21,972 | 22,003 | 24,768 | 24,257 | 22,507 | 16,439 |
| Imports | 35,796 | 40,370 | 40,157 | 41,668 | 41,357 | 41,118 | 48,001 | 55,671 | 51,869 | 42,417 | 29,605 |
| Trade Balance | -10,427 | -15,652 | -15,355 | -16,590 | -17,267 | -19,146 | -25,998 | -30,903 | -27,612 | -19,910 | -13,166 |
| Foreign Exchange Reserve | 18,244 | 15,289 | 11,020 | 14,141 | 18,699 | 23,099 | 21,403 | 16,384 | 14,482 | 18,886 | 20,105 |

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% |

| 1QCY21 T-Bills Auction | Average Yield | | |
|---------------------------------|---------------|-------|-------|
| Total Realized Amount (PKR bln) | 3M | 6M | 12M |
| 4,682 | 7.23% | 7.49% | 7.75% |

| CY20 PIBs Auction | | | |
|-------------------|---------------------------|-------------|------------------------|
| Tenure | Amount Accepted (PKR bln) | Coupon Rate | Weighted Average Yield |
| 3 Year | 428 | 7.00% | 8.95% |
| 5 Year | 303 | 7.50% | 9.27% |
| 10 Year | 118 | 8.00% | 9.37% |
| 15 Year | 93 | 10.50% | 10.04% |
| 20 Year | 45 | 11.00% | 10.66% |

| 1QCY21 PIBs Auction | | | |
|---------------------|---------------------------|-------------|------------------------|
| Tenure | Amount Accepted (PKR bln) | Coupon Rate | Weighted Average Yield |
| 3 Year | 47 | 7.00% | 8.88% |
| 5 Year | 76 | 7.50% | 9.60% |
| 10 Year | 51 | 8.00% | 10.04% |
| 15 Year | 0 | 10.50% | - |
| 20 Year | 2 | 11.00% | 10.54% |

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 |

Categories

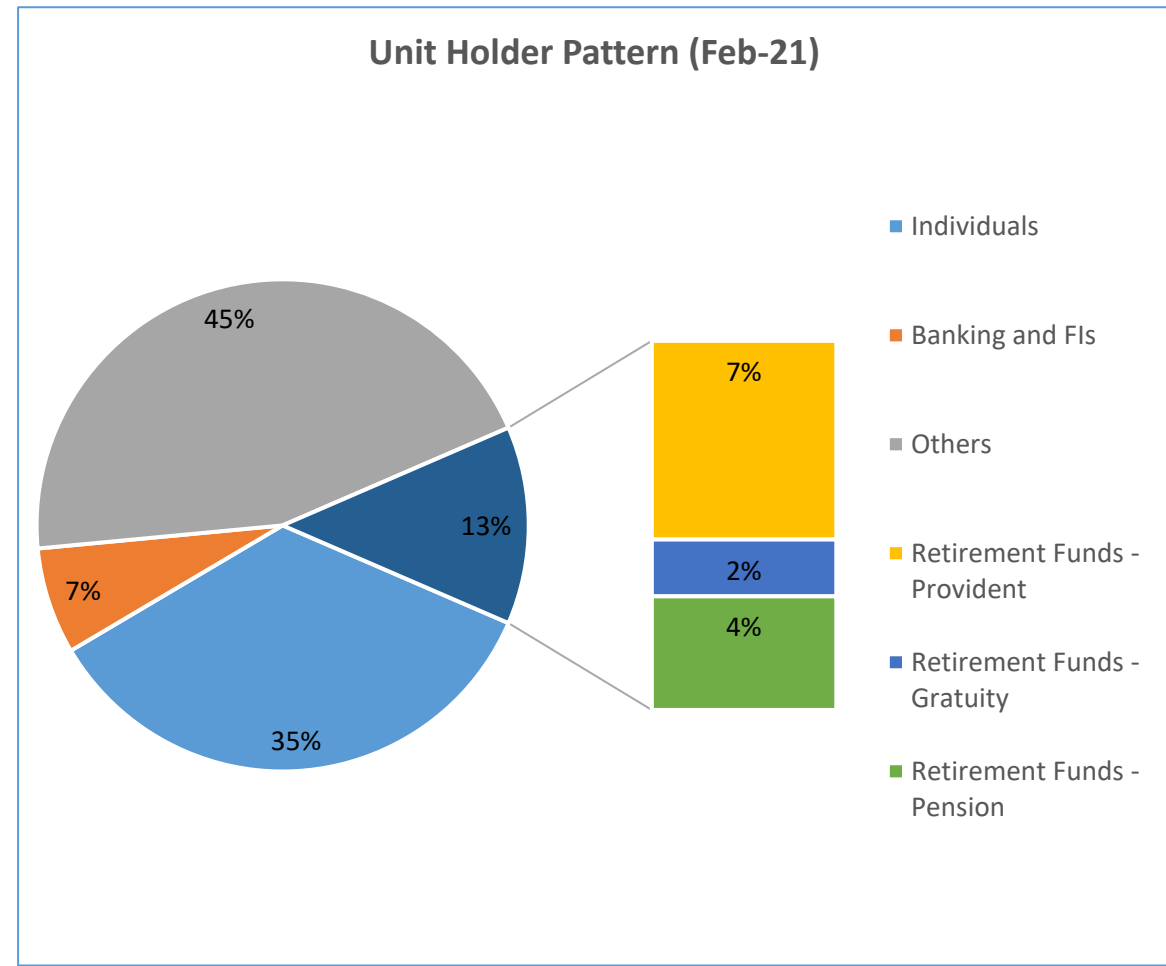
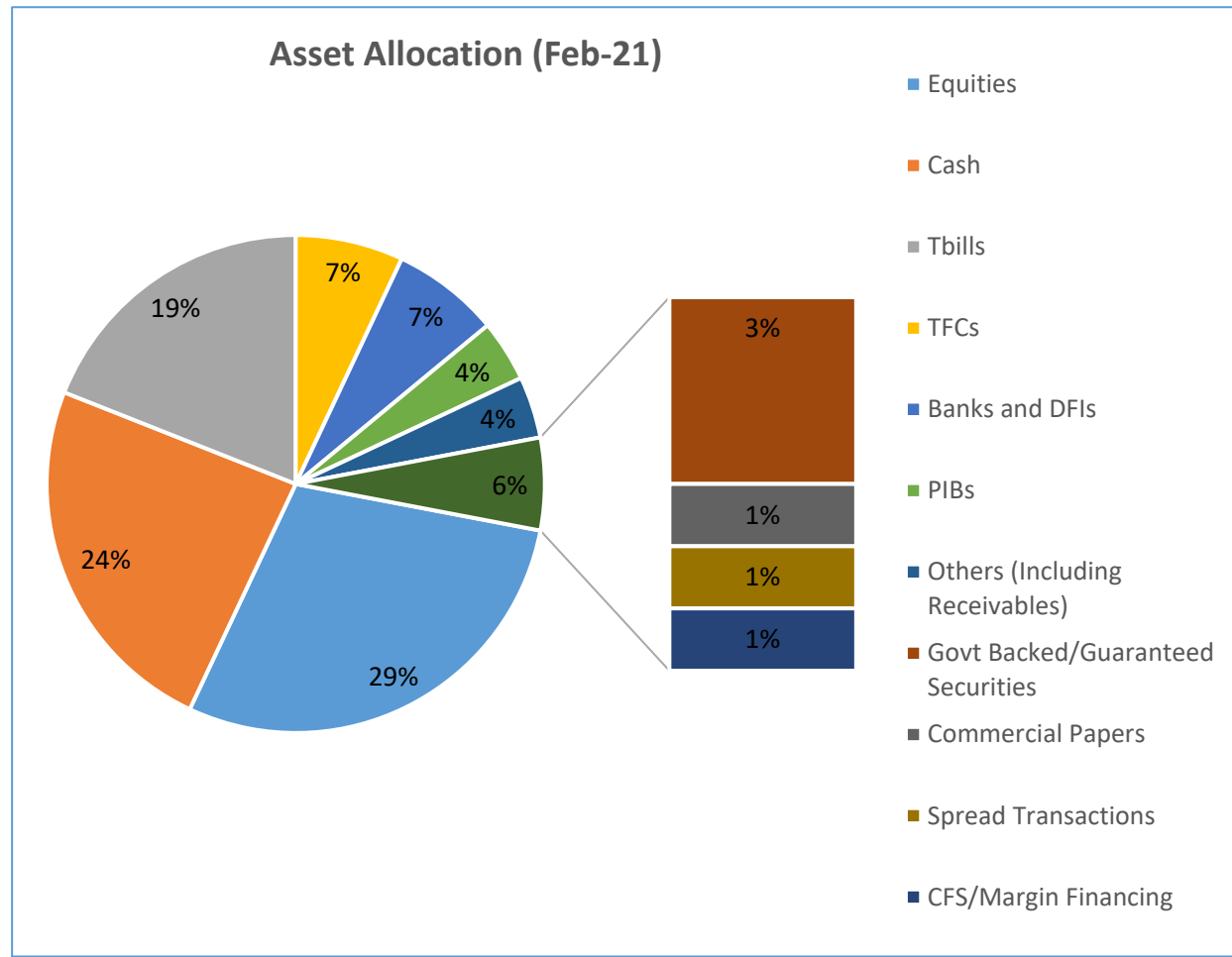
- **Equity Scheme:** An equity scheme or equity fund is a fund that invests in Equities more commonly known as stocks. The objective of an equity fund is long-term growth through capital appreciation, although dividends and capital gain realized are also sources of revenue.
- **Balanced Scheme:** These 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.

Market Share

| Mutual Funds Industry - Assets Under Management (Open End & VPS, excluding Fund of Funds) - PKR bln | | | | | | | |
|--------------------------------------------------------------------------------------------------------|------------------------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|
| S. No | Asset Management Company | Mar-20 | | Dec-20 | Jun-20 | Dec-19 | Jun-19 |
| | | Market Share | AUMs | AUMs | AUMs | AUMs | AUMs |
| 1 | NBP Fund Management Limited | 16.9% | 167.3 | 163.4 | 126.9 | 111.8 | 89.8 |
| 2 | Al-Meezan Investment Management Limited | 16.8% | 166.1 | 163.0 | 152.2 | 123.2 | 91.3 |
| 3 | MCB-Arif Habib Savings and Investments Limited | 9.5% | 94.2 | 82.7 | 66.2 | 58.2 | 44.3 |
| 4 | UBL Fund Managers Limited | 9.2% | 90.8 | 90.6 | 78.3 | 62.8 | 52.3 |
| 5 | National Investment Trust Limited | 8.6% | 85.2 | 85.2 | 68.6 | 75.0 | 67.5 |
| 6 | HBL Asset Management Limited | 8.0% | 79.5 | 78.3 | 57.7 | 46.8 | 42.7 |
| 7 | ABL Asset Management Limited | 7.6% | 75.4 | 66.7 | 58.6 | 53.1 | 37.6 |
| 8 | Faysal Asset Management Limited | 5.3% | 52.3 | 47.4 | 30.1 | 15.7 | 8.5 |
| 9 | Alfalalah GHP Investment Management Limited | 5.2% | 51.6 | 49.9 | 40.1 | 42.0 | 31.6 |
| 10 | Atlas Asset Management Limited | 4.5% | 45.0 | 40.4 | 29.7 | 30.9 | 25.7 |
| 11 | Al Habib Asset Management Limited | 2.6% | 25.5 | 25.5 | 14.1 | 7.0 | 3.4 |
| 12 | JS Investment Limited | 2.2% | 22.1 | 23.8 | 18.9 | 20.9 | 19.2 |
| 13 | Lakson Investments Limited | 1.9% | 18.4 | 21.9 | 18.9 | 20.5 | 15.6 |
| 14 | AKD Investment Management Limited | 0.7% | 7.2 | 6.5 | 4.6 | 5.4 | 4.4 |
| 15 | Pak Oman Asset Management | 0.6% | 6.0 | 6.6 | 4.4 | 4.3 | 3.3 |
| 16 | AWT Investment Management Limited | 0.2% | 2.0 | 2.2 | 2.7 | 2.7 | 1.8 |
| 17 | 786 Investments Limited | 0.1% | 0.5 | 0.6 | 0.6 | 0.6 | 0.7 |
| 18 | BMA Asset Management Company Limited | 0.0% | 0.4 | 0.4 | 0.2 | 0.3 | 0.3 |
| 19 | First Capital Investments Limited | 0.0% | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |
| Total | | 100% | 989.7 | 955.3 | 772.8 | 681.3 | 539.9 |

MUTUAL FUNDS | LOCAL INDUSTRY

Asset Allocation



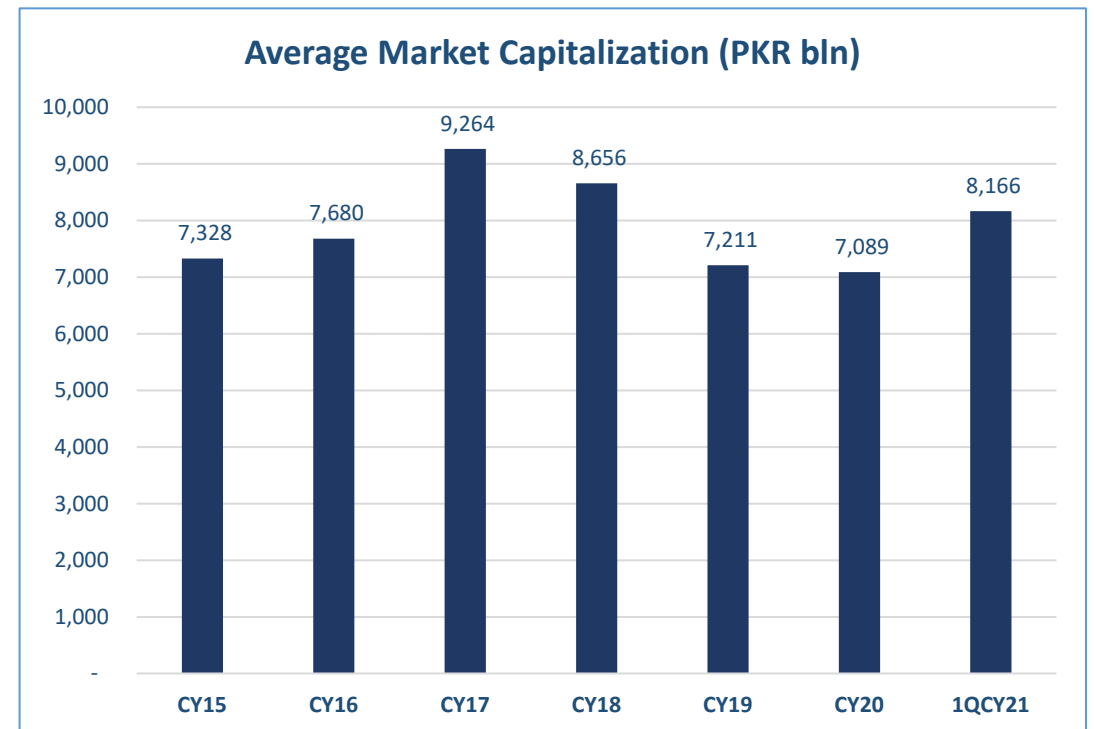
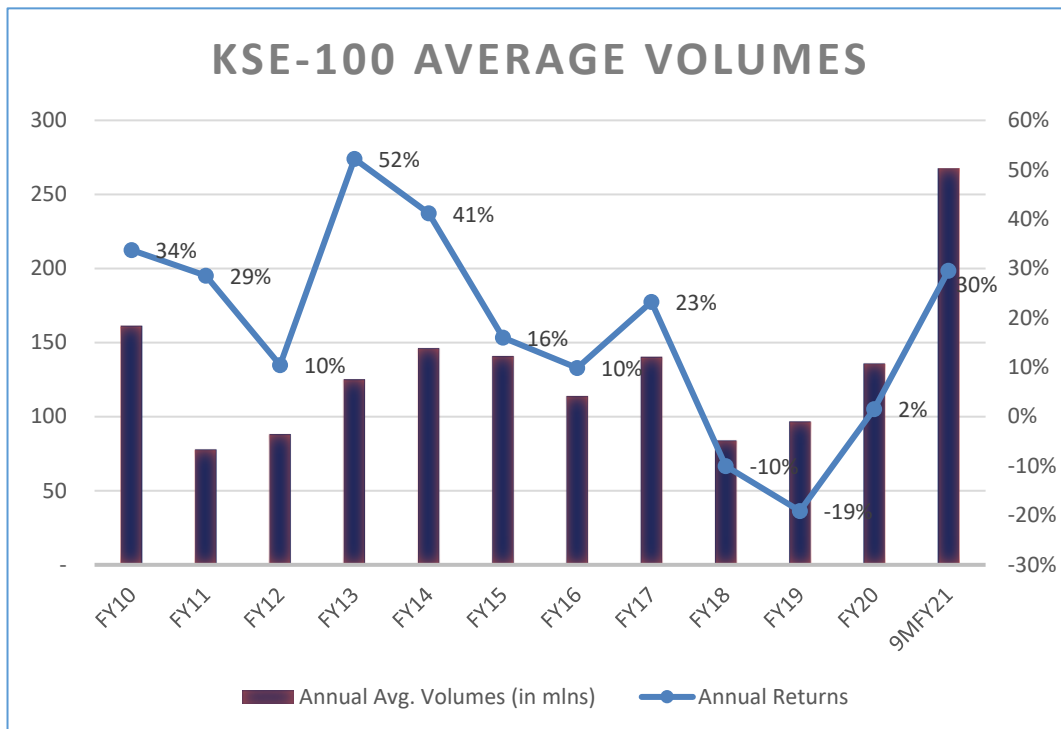
Note: Both graphs are representative of Open Ended Funds



MUTUAL FUNDS | LOCAL INDUSTRY

KSE-100 | Performance

| KSE 100 Index | FY11 | FY12 | FY13 | FY14 | FY15 | FY16 | FY17 | FY18 | FY19 | FY20 | 9MFY21 |
|---------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Index Value | 12,496 | 13,801 | 21,006 | 29,653 | 34,399 | 37,784 | 46,565 | 41,911 | 33,902 | 34,422 | 44,588 |
| Returns (%) | 29% | 10% | 52% | 41% | 16% | 10% | 23% | -10% | -19% | 2% | 30% |



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



MUTUAL FUNDS | LOCAL INDUSTRY

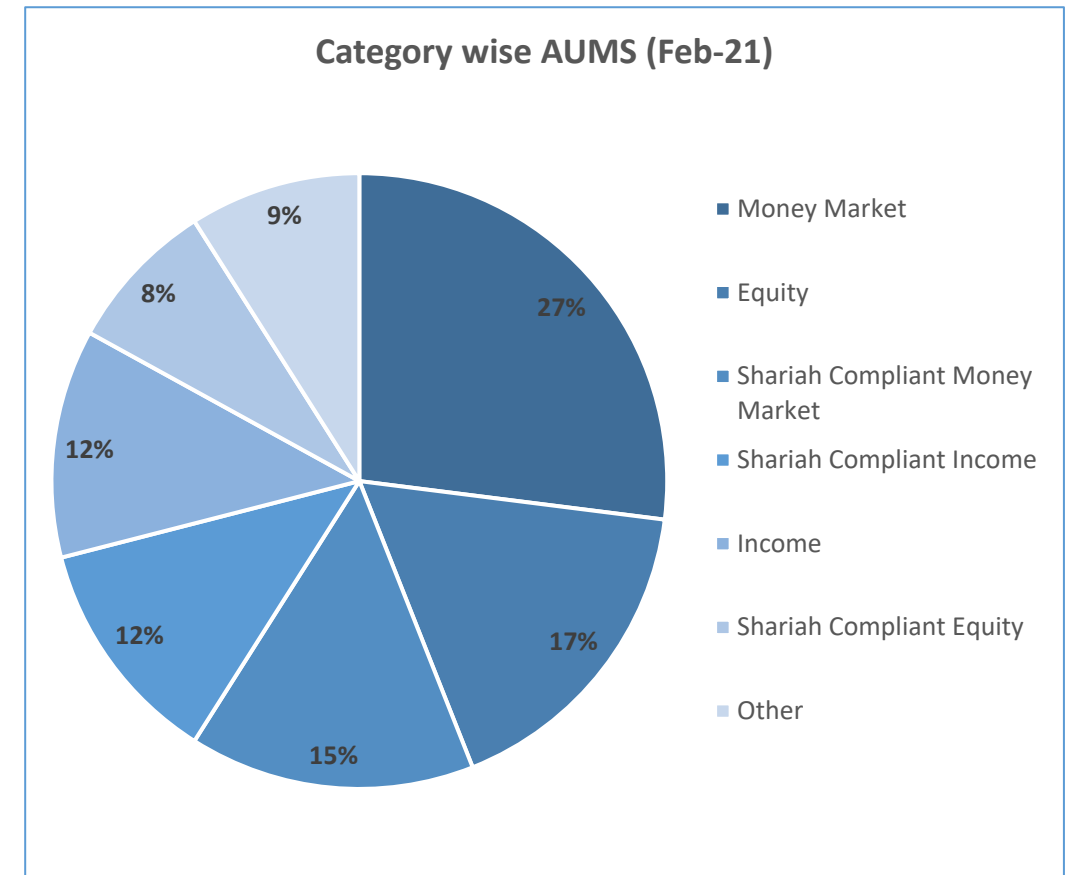
Mutual Funds | Categories

- **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 (Feb-21) | |
|-------------------------------------------|----------------|
| Category | AUMs (PKR bln) |
| Money Market | 252 |
| Equity | 158 |
| Shariah Compliant Income | 140 |
| Shariah Compliant Money Market | 112 |
| Income | 112 |
| Shariah Compliant Equity | 75 |
| Other | 84 |
| Total AUMs | 932 |

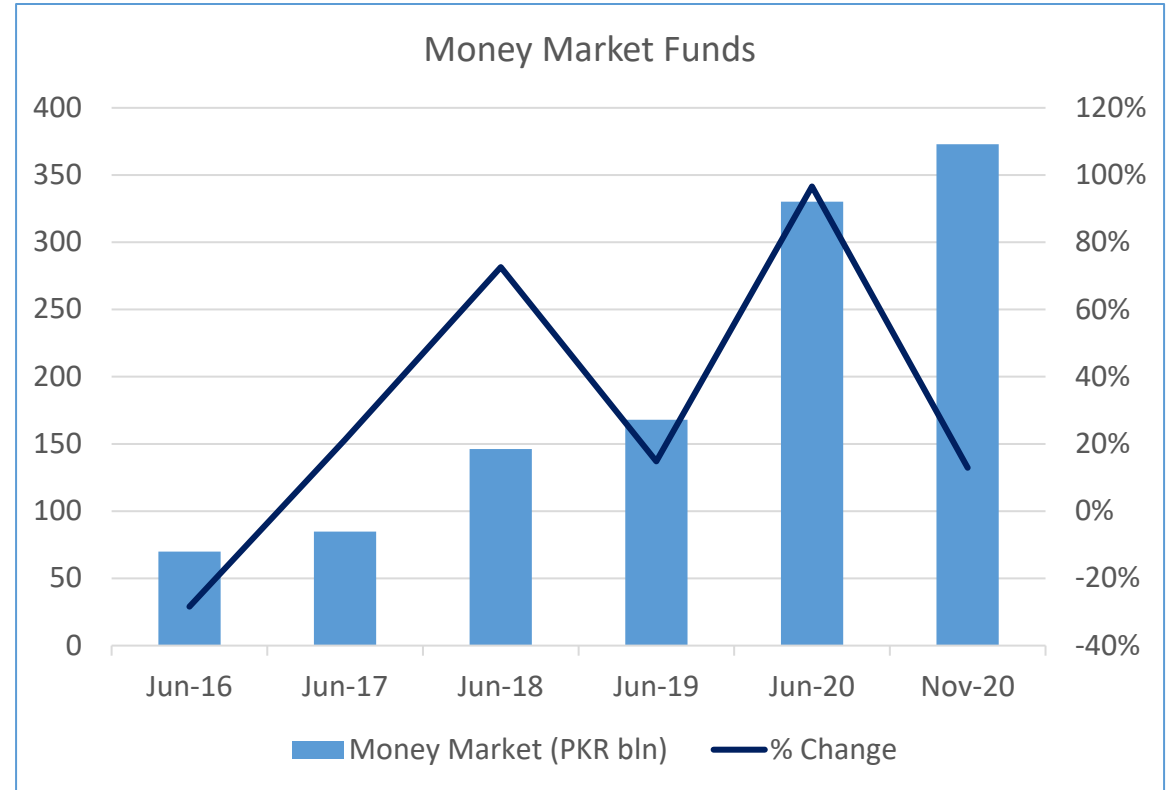
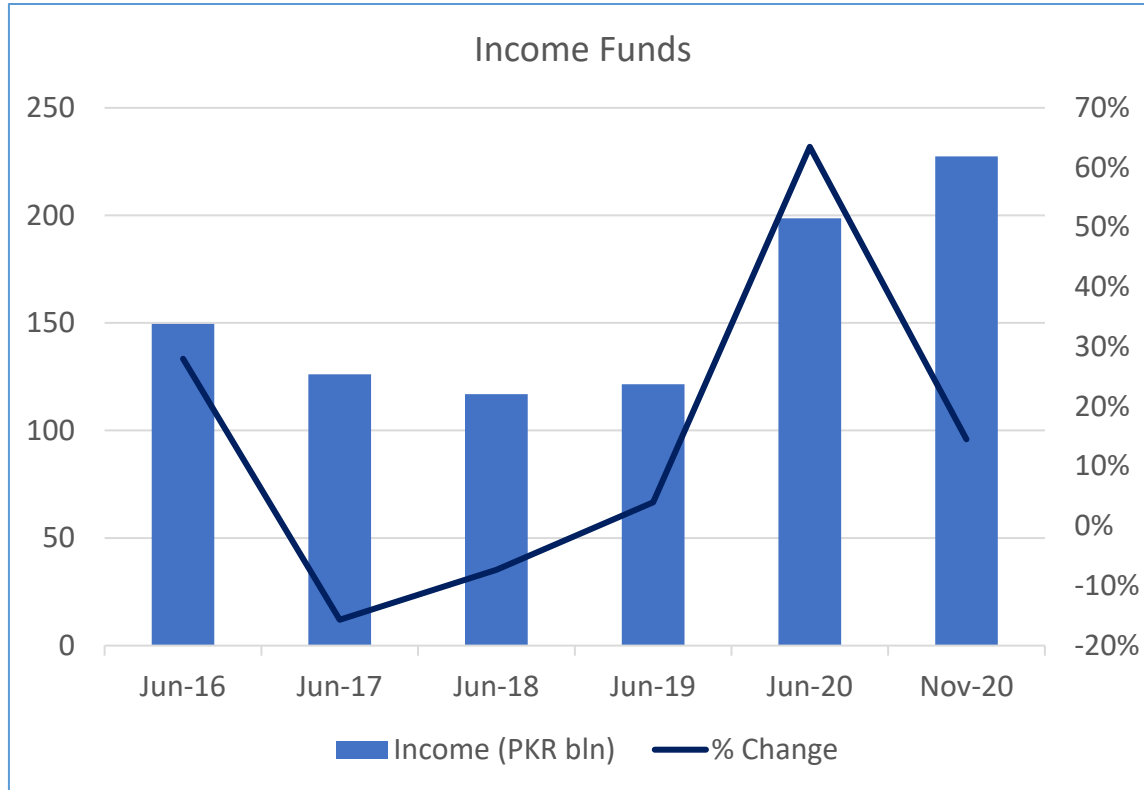


Industry Returns

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 | Dec-20 | Jan-21 | Feb-21 |
|----------------------------------|---------------|---------------|---------------|---------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Equity | 11.59% | -0.46% | -18.75% | 11.14% | 1.73% | 1.59% | 12.90% | 10.78% | 6.68% | 5.87% | 10.77% | 14.74% | 16.62% | 12.59% |
| 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% | 6.48% | 5.93% | 6.27% |
| Income | 11.59% | 11.87% | 22.51% | 23.17% | 6.04% | 7.98% | 3.73% | 6.47% | 7.24% | 6.43% | 6.12% | 6.42% | 6.00% | 5.90% |
| 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% | 6.06% | 5.95% | 5.90% |
| Money Market | 12.81% | 12.46% | 13.77% | 14.16% | 7.19% | 6.86% | 6.11% | 5.44% | 6.61% | 5.98% | 6.47% | 6.82% | 6.42% | 5.43% |
| 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% | 6.88% | 5.97% | 3.72% |

Trend of Income & Money Market Funds



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.

- 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 COVID-19.
- Delay in availability of vaccination could hamper economic recovery.

- 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.

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 ~7.85% YoY during the first seven 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 first quarter of CY21 was recorded at ~2% and was impacted by the continued uncertainty resulting from a third wave of COVID-19 in the country. 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 9MFY21 stood at ~8.36% 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 third 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.

- The International Investment Funds Association (IIFA)
- Association of Mutual Funds in India
- 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)
- Bloomberg
- KSE Stocks
- Statista
- PACRA Database

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