



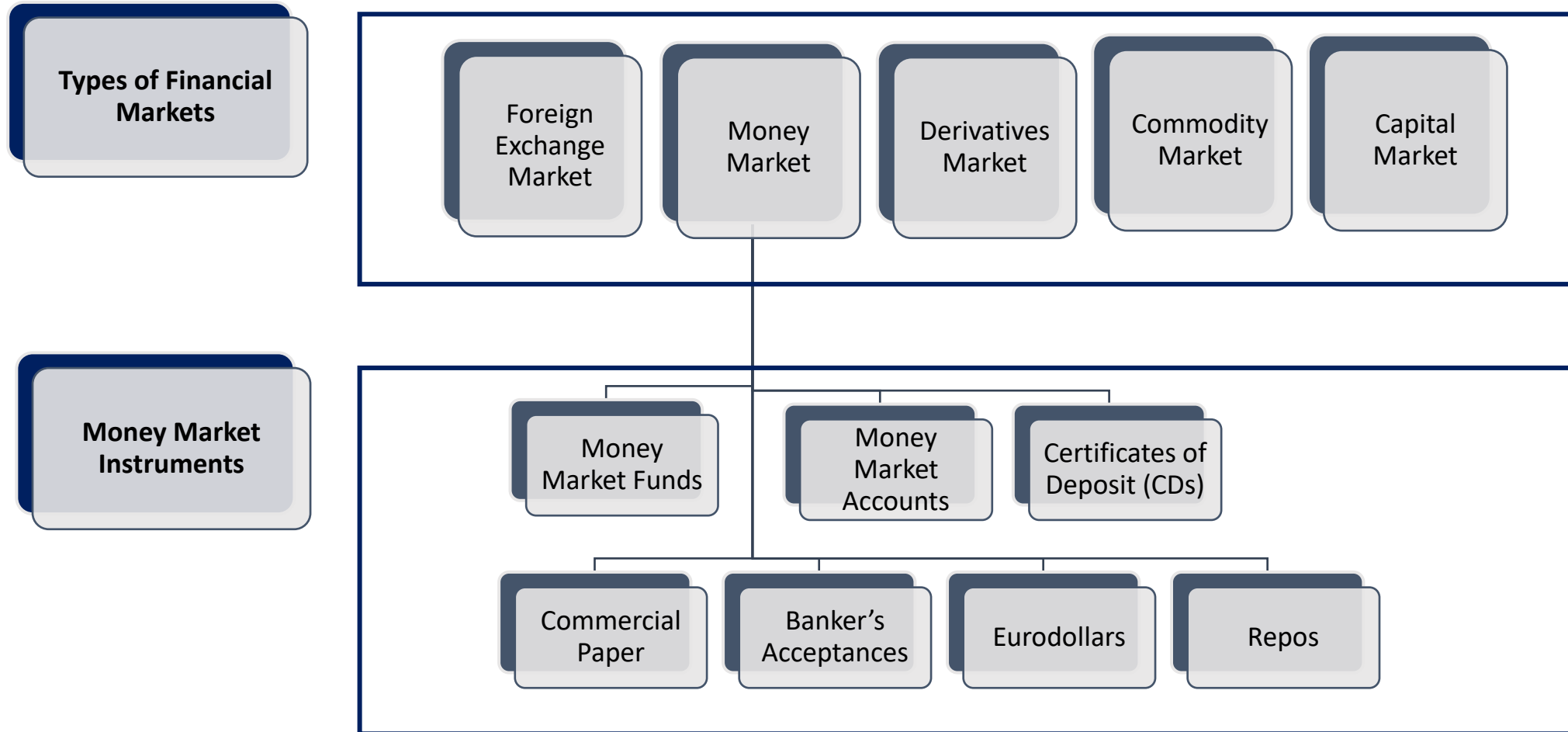
Mutual Funds | Performance and Stability

Sector Study

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Mutual Funds: Performance and Stability

Types of Financial Markets | An Overview



Mutual Funds: Performance and Stability

Types of Financial Markets | In-Depth Overview



The forex market allows participants, including banks, funds, and individuals, to buy, sell or exchange currencies for both hedging and speculative purposes. It is made up of two levels: the interbank market and the over-the-counter (OTC) market.

The money market refers to trading in very short-term debt investments. It involves large-volume trades between institutions and traders at the wholesale level and money market mutual funds bought by individual investors and money market accounts opened by bank customers at the retail level.

The derivatives market refers to the market for financial instruments such as futures contracts or options that are based on the values of their underlying assets. There are four major types of derivative contracts: options, futures, forwards, and swaps.

A commodity market is a marketplace for buying, selling, and trading raw materials or primary products. Hard commodities include natural resources such as gold, rubber, and oil, whereas soft commodities are agricultural products or livestock—such as corn, wheat and sugar.

Capital markets refer to the places where savings and investments are moved between suppliers of capital and those who are in need of capital. The most common capital markets are the stock market and the bond market.

Mutual Funds: Performance and Stability

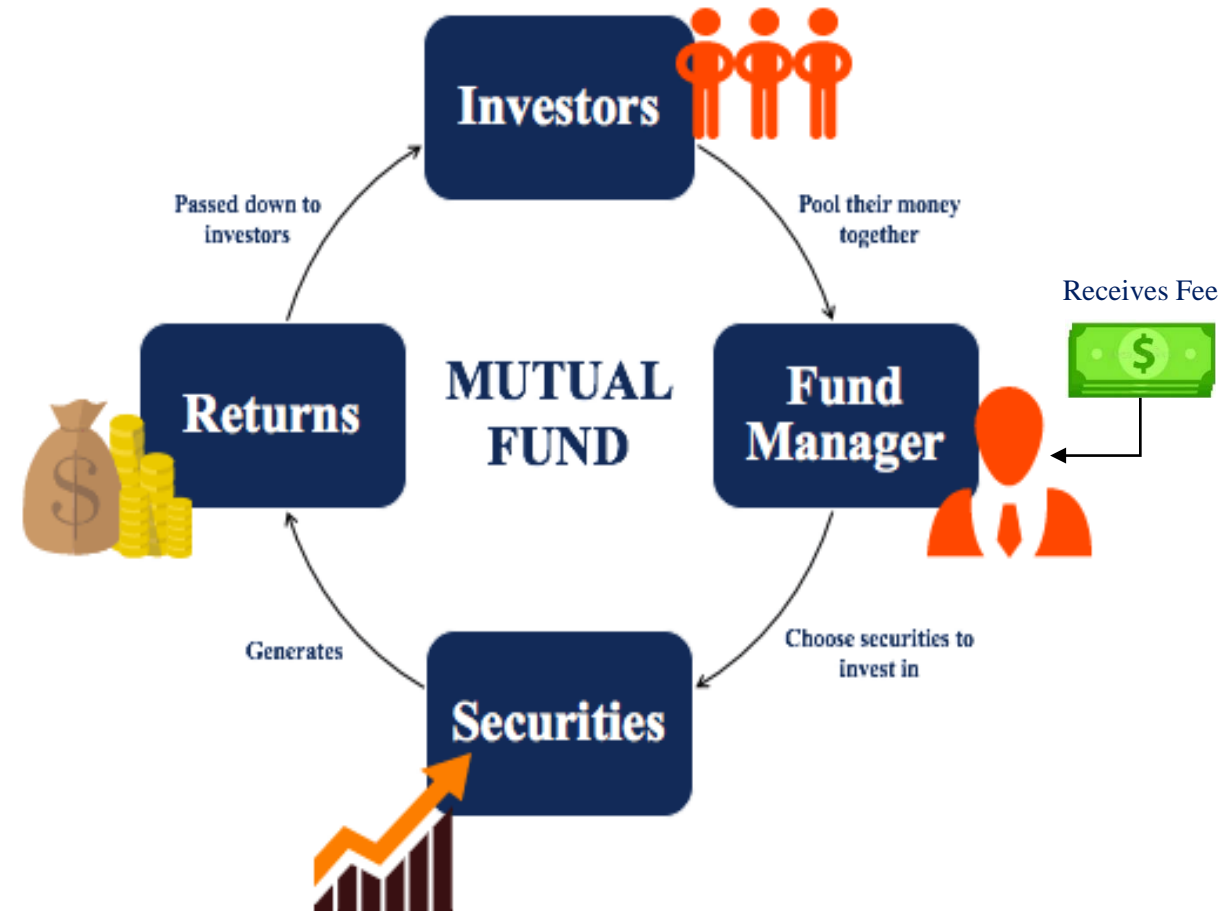
An Overview of Capital Markets

- 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 the 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 the 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.

Mutual Funds: Performance and Stability

Overview | Mutual Funds

- 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 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.

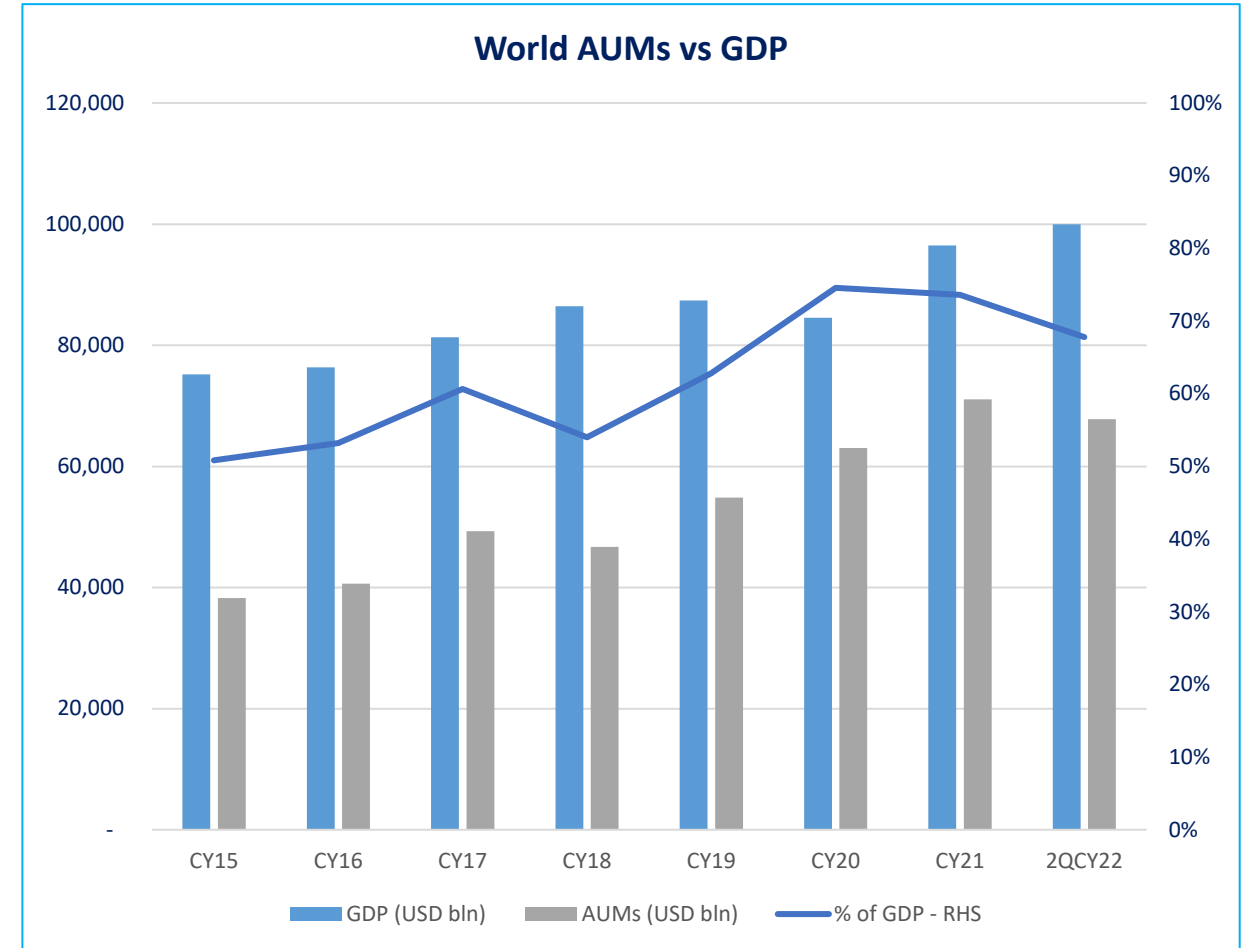


Mutual Funds: Performance and Stability

World AUMs

Year	CY17	CY18	CY19	CY20	CY21	2QCY22
AUMs (USD bln)	49,301	46,696	54,877	63,048	71,057	67,796
Growth	21.3%	-5.3%	17.5%	14.9%	12.7%	-4.6%

- 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.
- Global Open-End Fund Assets decreased by ~5% YoY during 2QCY21 clocking in at USD~68trn (~68% of the global GDP).
- Unlike 1QCY22, open end funds reported net sales of USD~(130)bln or, in other words, net outflows. Out of the four global regions discussed in our report, the Americas and Europe reported net fund outflows with the former and latter contributing ~140% and ~74%, respectively, to global net sales.
- Within Europe, the most pronounced withdrawals were reported in Luxembourg, France, UK, and Netherlands. Global recessionary conditions trickled into a bleak economic outlook whose effects were most pronounced for the UK major equity market sectors which were trading at lower valuations multiples than their global peers. The growth rate of the AUMs Market has historically remained volatile. Average CAGR for the Open-End Fund Assets is recorded at ~9.2% from CY15 to CY21.
- Similarly, the outpouring of investments in the rest of Europe and the Americas reflect investor sentiment – weak and fearing recession.



*CY22 GDP figure is based on estimated IMF global GDP growth rates for the year.

Mutual Funds: Performance and Stability

Region Wise Asset Allocation & Number of Funds

Worldwide Open-End Funds: Total Net Assets (USD bln)						
Region	CY17	CY18	CY19	CY20	CY21	2QCY22
Americas	24,899	23,643	28,640	32,325	37,531	31,662
Europe	17,722	16,477	18,812	21,756	23,326	18,919
Asia & Pacific	6,498	6,421	7,248	8,781	9,999	9,147
Africa	182	155	177	186	197	183
Total	49,301	46,696	54,877	63,048	71,053	59,911

Worldwide Open-End Number of Funds						
Region	CY17	CY18	CY19	CY20	CY21	2QCY22
Americas	26,570	27,714	28,733	30,298	33,039	34,286
Europe	54,558	56,001	56,955	57,753	58,986	59,612
Asia & Pacific	30,196	32,996	35,260	35,974	38,073	39,576
Africa	1,626	1,567	1,610	1,686	1,710	1,729
Total	112,950	118,278	122,558	125,711	131,808	135,204

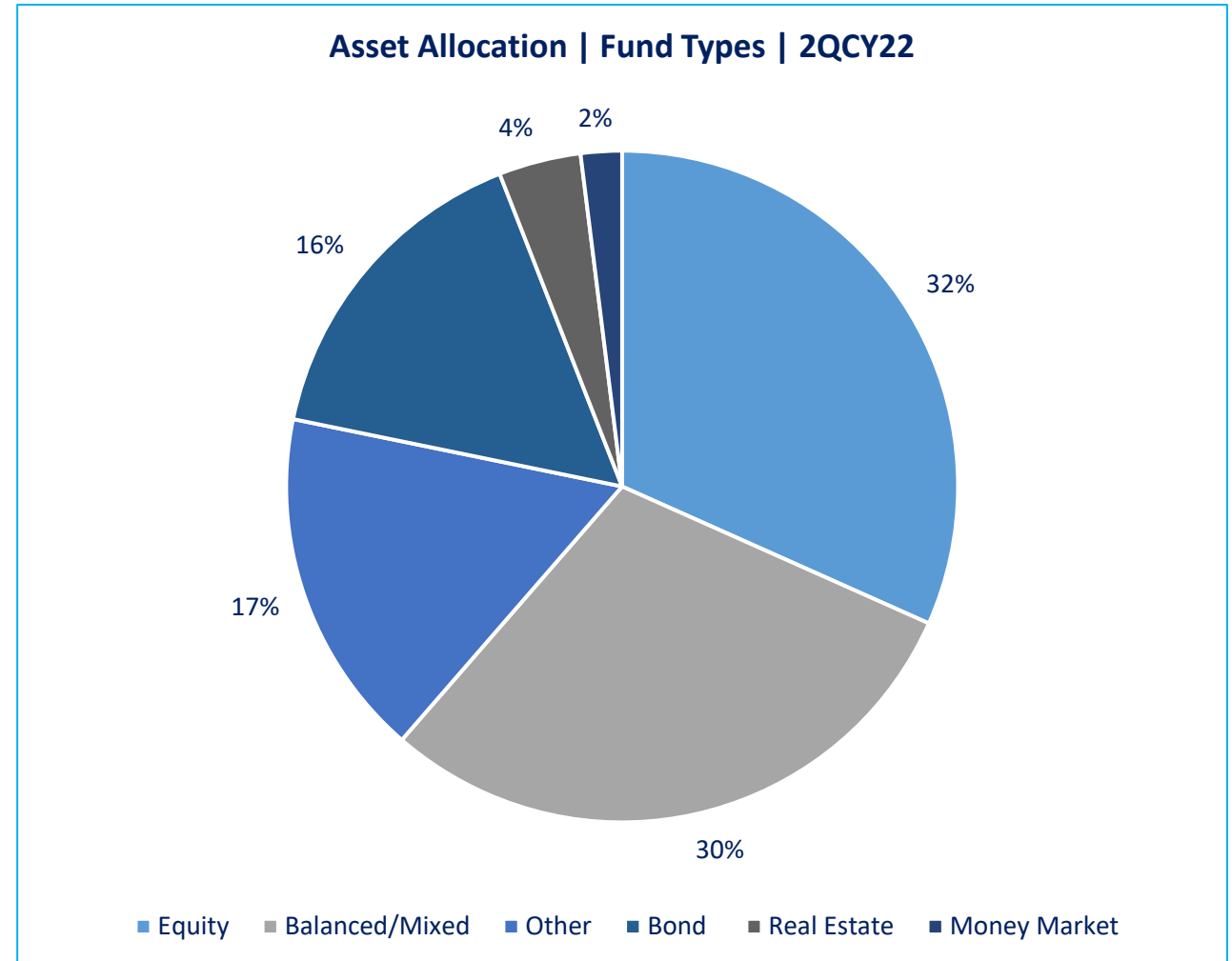
Worldwide Open-End Funds: Total Net Assets (%)						
Region	CY17	CY18	CY19	CY20	CY21	2QCY22
Americas	51.0%	51.0%	52.0%	51.0%	51.0%	52.8%
Europe	36.0%	35.0%	34.0%	35.0%	35.0%	31.6%
Asia & Pacific	13.0%	14.0%	13.0%	14.0%	14.0%	15.3%
Africa	0.4%	0.3%	0.3%	0.3%	0.3%	0.3%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Worldwide Open-End Number of Funds						
Region	CY17	CY18	CY19	CY20	CY21	2QCY22
Americas	23.5%	23.4%	23.4%	24.1%	24.7%	24.5%
Europe	48.3%	47.3%	46.5%	45.9%	45.3%	44.1%
Asia & Pacific	26.7%	27.9%	28.8%	28.6%	28.7%	29.3%
Africa	1.4%	1.3%	1.3%	1.3%	1.3%	1.3%
Total	100%	100.0%	100.0%	100.0%	100.0%	100.0%

Mutual Funds: Performance and Stability

Asset Allocation by Fund Type

- Global Open-End Fund Market is dominated by Long term Investments.
- Equity funds account for ~32% of the global open-end fund Assets followed by balanced/mixed funds (~30%). Meanwhile, bonds account for ~16% of global AUMs.
- During 2QCY22, global net sales of the open-end fund market was recorded at USD~(130)bln (2QCY21: USD~855bln) with a YoY decrease of ~102%.
- In terms of Asset Allocation, all fund types witnessed a decrease in terms of net assets under management with equity funds witnessing the largest decrease of (~15.9%) followed by balanced/mixed fund assets (~11.5%), and bond fund assets (~8.9%). As stated previously, this was due to weak performance across equity and bond markets which resulted in weak performance. The Russian-Ukraine war and monetary tightening actions across the world were two major reasons for weak market sentiment.



Mutual Funds: Performance and Stability

Regional Market | Asia & Pacific AUMs

2QCY22										
USD bln	China	Australia	Japan	Korea	India	Taiwan	New Zealand	Philipines	Pakistan	TOTAL
AUMs	3,510	2,386	1,944	601	486	152	93	8	6	9,146
GDP	17,734	1,553	4,941	1,811	3,176	774	250	394	348	30,981
% of AUMs	20%	154%	39%	33%	14%	20%	37%	2%	2%	30%

- Asia & Pacific accounts for ~15% of the Global Open-End Fund Assets and ~29% of the Number of Global Open-End Funds (2QCY22).
- In terms of GDP, Asia & Pacific makes up ~32% of the Global GDP.
- China, Australia and Japan are the largest economies with reference to AUMs Market in the Asia & Pacific.
- India ranks the third lowest in the region when comparing national open-end fund assets as a percentage of economy (USD~486bln, ~14% 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.

Mutual Funds: Performance and Stability

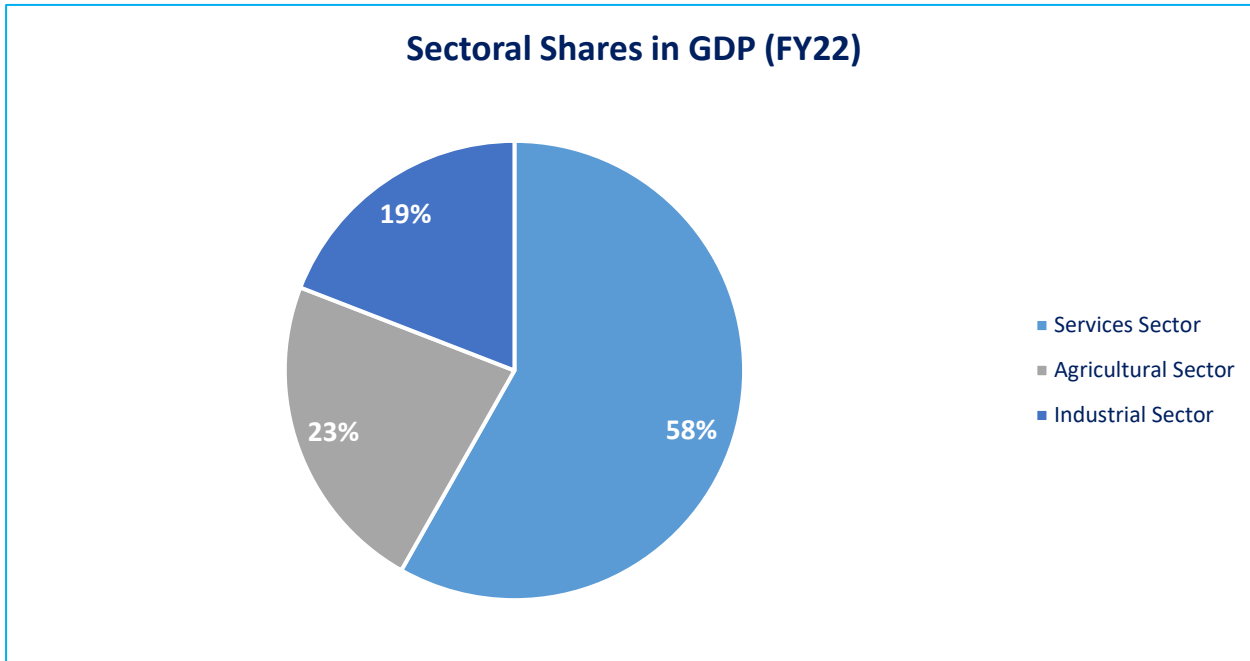
Regional Comparison | India

Assets Under Management Category Wise – Sep 2022 (USD mln)							
Investor Classification	Liquid/Money Market Funds	Growth/Equity Oriented Schemes	Income/Debt Oriented Schemes	Hybrid Schemes	ETFs (other than gold)	Other	Totals
Corporates	6,527	1,642	4,047	731	5,147	945	19,039
Individuals	1,214	6,800	2,747	4,018	364	875	16,018
Retail	119	9,751	270	1,217	1,019	551	12,927
Banks/FIs	241	8	236	3	26	10	524
Foreign Institutional Investors	0	36	12	4	1	0	55
Total	8,102	18,237	7,311	5,974	6,558	2,381	48,563

Mutual Funds: Performance and Stability

GDP Break Up

- Pakistan’s GDP recorded a growth of ~6.2% in FY22 in real terms. The country’s GDP (nominal) was recorded at PKR~66.9trln in FY22 as compared to PKR~55.8trln in FY21. However in FY23, GDP growth is expected to slump below ~2%, owing to acute economic challenges.
- The top 5 sectors in terms of contribution to GDP are (i) Wholesale & Retail Trade; (ii) Transport, Storage & Communication; (iii) Livestock; (iv) Large Scale Manufacturing; and (v) Other Private Services.



FY22 Sector Wise GDP Break-Up (%)	
Crops	7.84
Livestock	14.04
Forestry	0.49
Fishing	0.32
Total Agricultural Sector	22.68
Mining and Quarrying	1.71
Large Scale Manufacturing	9.24
Small Scale Manufacturing	1.98
Slaughtering	1.21
Electricity Generation + Distribution & Gas Distribution	2.41
Construction	2.56
Total Industrial Sector	19.11
Wholesale & Retail Trade	18.83
Transport, Storage & Communication	11.78
Finance & Insurance	1.86
Housing Services	5.57
General Government Services	4.64
Other Private Services	8.32
Total Services Sector	58.20

Note: GDP value is at constant basic prices of 2015-16

Mutual Funds: Performance and Stability

Macro Economic Indicators

	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	7MFY22	7MFY23
Average Inflation Rate (CPI)	7.40%	8.60%	4.50%	2.90%	4.20%	3.90%	7.30%	10.70%	8.90%	12.10%	10.26%	24.90%
Average KIBOR	9.84%	9.88%	8.85%	6.49%	6.11%	6.39%	10.43%	11.95%	7.43%	10.83%	9.06%	16.16%
Monetary Policy Rate (MPR)	9.91%	9.75%	8.75%	6.04%	5.75%	5.95%	9.69%	11.75%	7.00%	9.67%	7.92%	15.28%
PKRV	9.63%	9.75%	8.67%	6.34%	5.95%	6.26%	10.20%	11.79%	7.28%	10.68%	8.93%	16.00%
Average Exchange Rate	96.83	102.84	101.47	104.37	104.78	110.11	136.45	158.40	160.46	191.87	170.35	222.23
(USD mln)	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	7MFY22	7MFY23
Current Account Balance	-2,496	-3,130	-2,815	-4,961	-12,270	-19,195	-13,434	-2,970	-1,852	-13,779	-1,660	-583
Exports	24,802	25,078	24,090	21,972	22,003	24,768	24,257	22,536	25,630	31,792	2,556	2,783
Imports	40,157	41,668	41,357	41,118	48,001	55,671	51,869	43,645	53,785	80,177	6,440	5,522
Trade Balance	-15,355	-16,590	-17,267	-19,146	-25,998	-30,903	-27,612	-21,109	-28,155	-48,385	-3,884	-2,739
Foreign Exchange Reserves	11,020	14,141	18,699	23,099	21,403	16,384	14,482	18,886	24,398	15,450	22,836	8,540

Mutual Funds: Performance and Stability

Macro Economic Indicators | Monthly

	Feb-22	Mar-22	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22	Jan-23
Average Inflation Rate (CPI)	12.20%	12.70%	13.40%	13.80%	21.30%	24.90%	27.30%	23.20%	26.60%	23.80%	24.50%	27.60%
Average KIBOR	10.82%	11.85%	13.52%	14.90%	15.41%	15.66%	15.96%	16.05%	15.81%	16.01%	17.00%	17.38%
Monetary Policy Rate (MPR)	9.75%	9.75%	12.25%	13.00%	13.75%	15.00%	15.00%	15.00%	15.00%	15.50%	16.00%	17.00%
PKRV	10.67%	11.78%	13.13%	14.78%	15.25%	15.39%	15.78%	15.83%	15.64%	15.87%	16.90%	17.33%
Average Exchange Rate	175.7	180.1	202.4	214.1	204.4	219.4	220.9	230.5	220.6	222.3	225.0	234.8
(USD mln)	Feb-22	Mar-22	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22	Jan-23
Current Account Balance	-545	-1,006	-640	-1,513	-2,169	-1,215	-676	-363	-569	-276	-400	-*
Exports	2,820	3,763	3,779	2,990	3,770	2,835	3,387	3,021	2,834	2,888	2,304	2,211
Imports	5,907	7,218	7,028	6,550	8,353	6,151	6,649	5,571	5,288	4,978	5,161	4,856
Trade Balance	-3,087	-3,455	-3,249	-3,560	-4,583	-3,316	-3,262	-2,550	-2,454	-2,090	-2,857	-2,645
Foreign Exchange Reserves	22,638	18,545	16,406	15,219	15,537	14,024	14,347	13,310	14,278	13,027	11,421	8,742*

*- Not publicly available

Forex reserves are based on January 27, 2023 value

Mutual Funds: Performance and Stability

KSE-100 Returns | Monthly & Annual

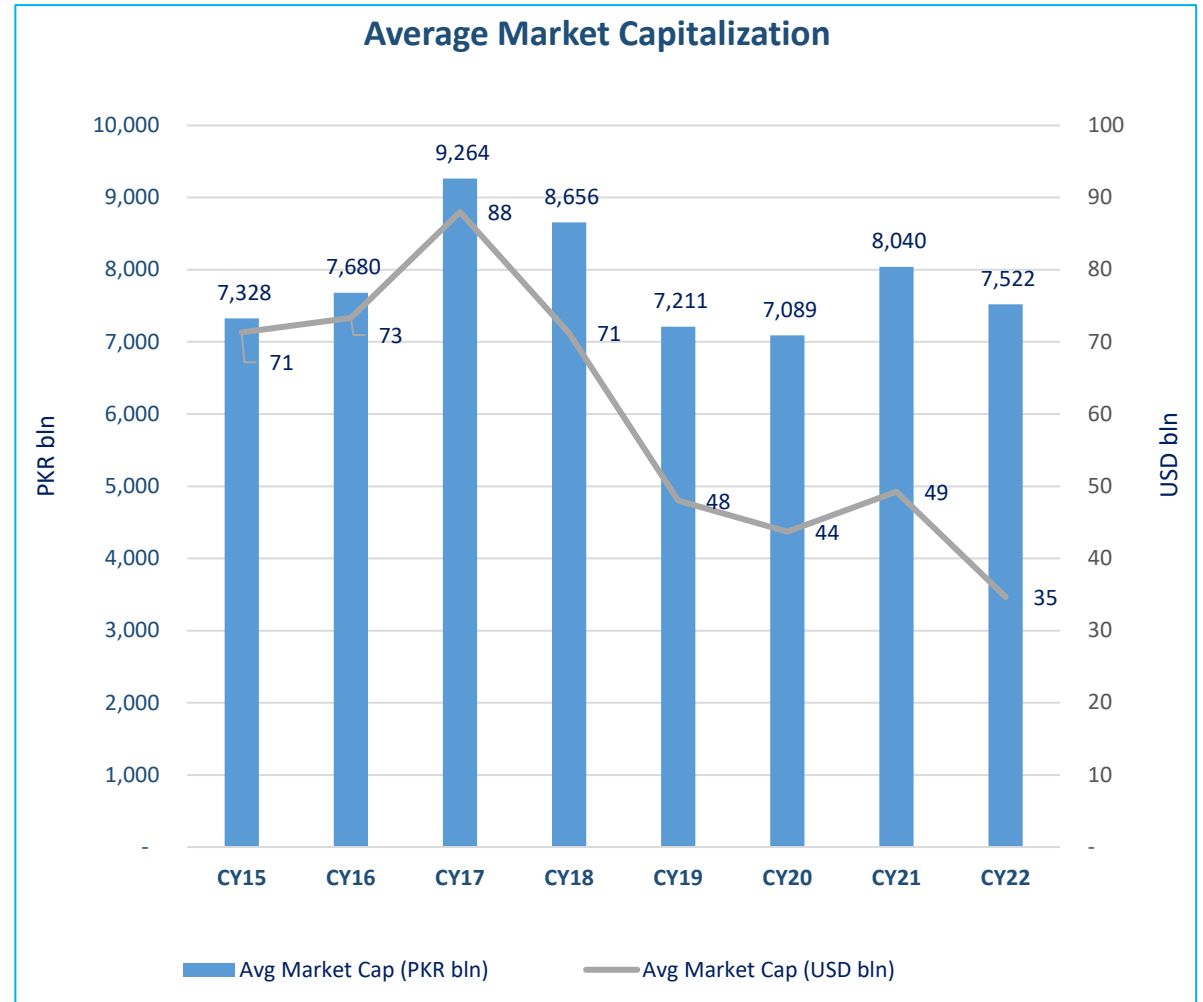
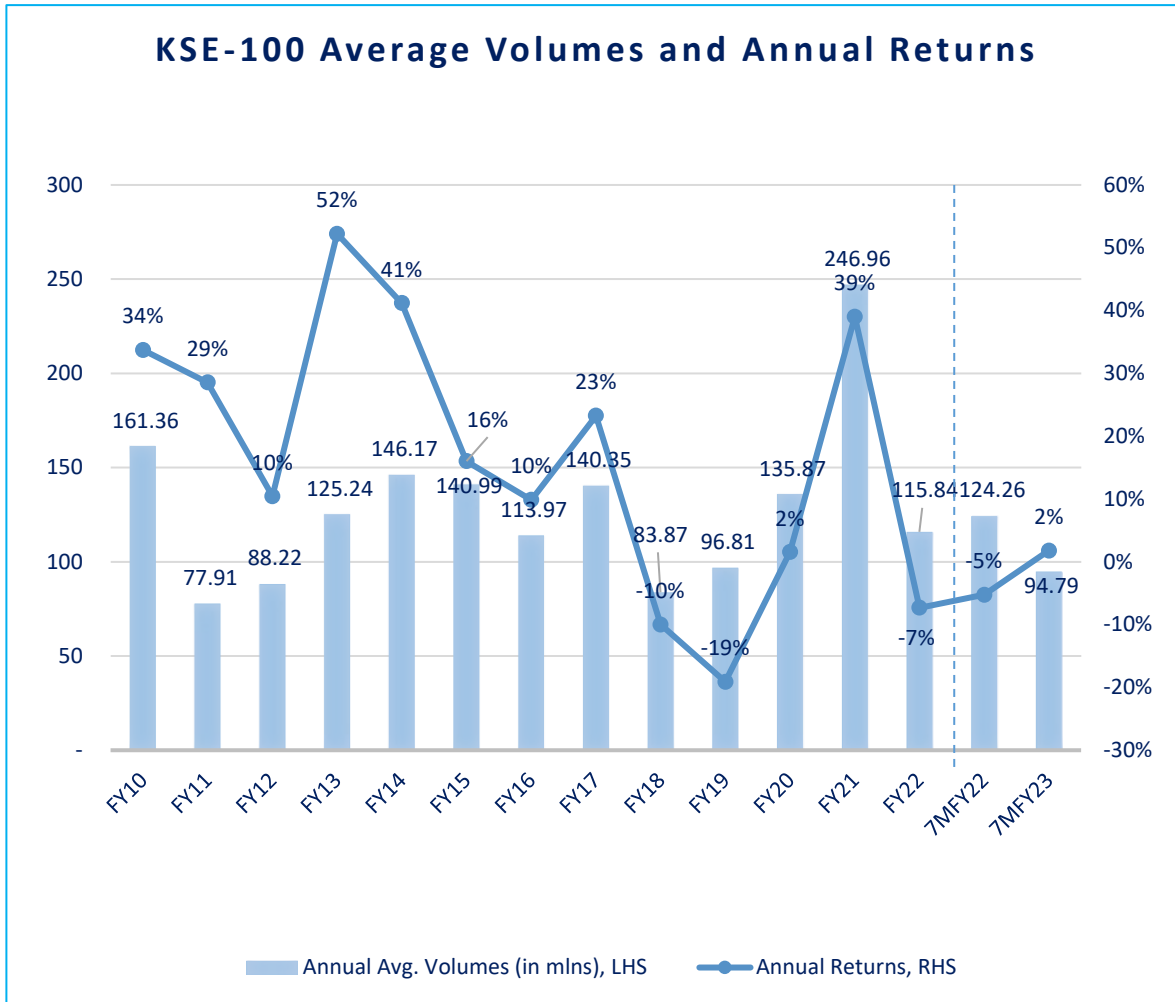
KSE 100 Index	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	7MFY22	7MFY23
Index Value	21,006	29,653	34,399	37,784	46,565	41,911	33,902	34,422	47,356	41,541	45,917	41,455
Returns (%)	52%	41%	16%	10%	23%	-10%	-19%	2%	38%	-12%	2%	-10%

KSE 100 Index	CY12	CY13	CY14	CY15	CY16	CY17	CY18	CY19	CY20	CY21	CY22
Index Value	16,905	25,261	32,131	32,816	47,807	40,471	37,067	40,735	43,755	44,596	40,420
Returns (%)	49%	49%	27%	2%	46%	-15%	-8%	10%	7%	2%	-9%

KSE 100 Index	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22	Sep-22	Oct-22	Nov-22	Dec-22	Jan-23
Index Value	44,461	44,929	45,249	43,078	41,541	40,150	42,351	41,129	41,265	42,349	40,420	40,006
Returns (%)	-2%	1%	1%	-5%	-4%	-3%	6%	-3%	0%	3%	-5%	-2%

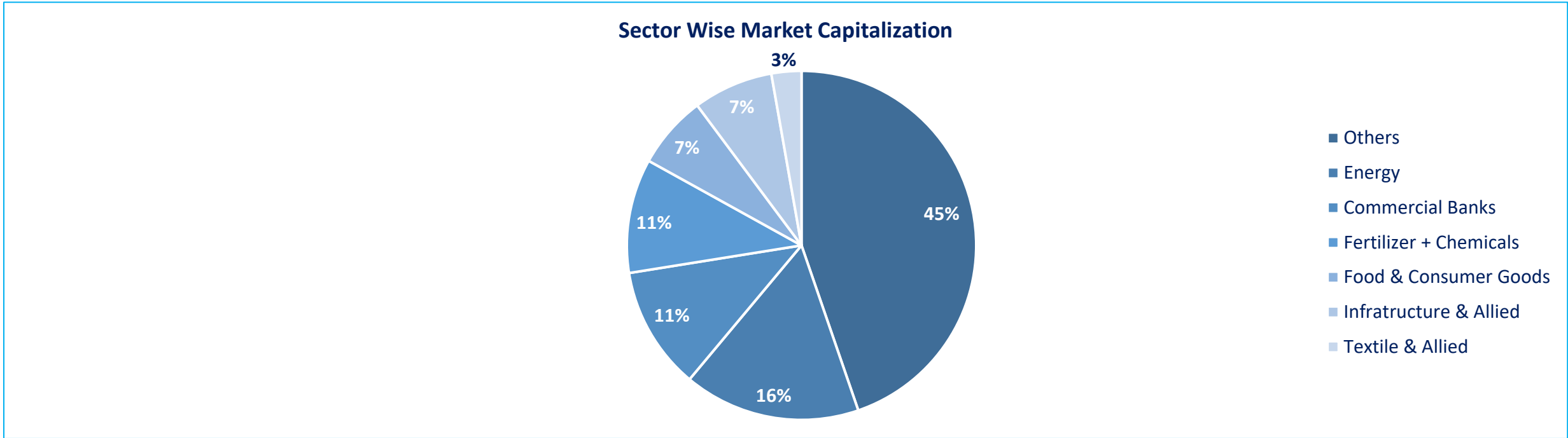
Mutual Funds: Performance and Stability

Market Volumes & Capitalization



Mutual Funds: Performance and Stability

Market Capitalization | Sectoral Composition



- This data is based on market capitalization of PKR~7.6trn as on 28th Dec, 2022.
- The largest sector is energy sector which comprises of Oil & Gas Exploration & Production, Oil & Gas Marketing, Power Generation & Distribution and Refineries; the market capitalization stood at PKR~1.2trn and accounted for ~16% of the total.
- Commercial banks, with a market capitalization of PKR~0.9trn, are the next largest sector and contributed ~11% to the total market capitalization.

Mutual Funds: Performance and Stability

T-Bills & PIBs

CY22 T-Bills Auction	Average Yield		
Total Realized Amount (PKR bln)	3M	6M	12M
33,262	14.27%	14.46%	14.55%

CY21 T-Bills Auction	Average Yield		
Total Realized Amount (PKR bln)	3M	6M	12M
17,814	7.80%	8.07%	8.71%

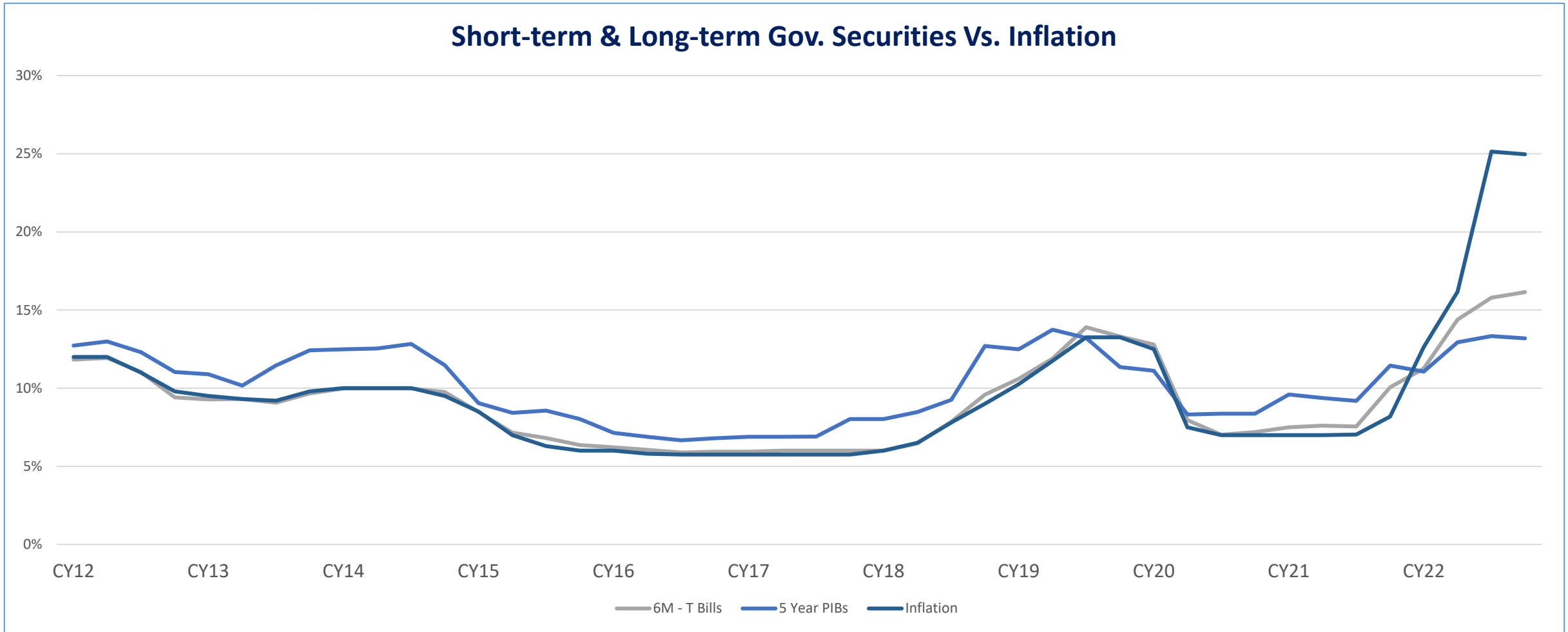
CY22 PIBs Auction			
Tenure	Amount Accepted (PKR bln)	Coupon Rate	Weighted Average Yield
3 Year	486	8.25%	12.98%
5 Year	1,120	8.25%	12.66%
10 Year	480	8.50%	12.05%
15 Year	0	10.50%	0.00%
20 Year	0	11.00%	0.00%

CY21 PIBs Auction			
Tenure	Amount Accepted (PKR bln)	Coupon Rate	Weighted Average Yield
3 Year	657	7.00%	9.28%
5 Year	474	7.50%	9.76%
10 Year	215	8.00%	10.31%
15 Year	86	10.50%	10.41%
20 Year	24	11.00%	10.56%

Mutual Funds: Performance and Stability

T-Bills & PIBs | Yields

Short-term & Long-term Gov. Securities Vs. Inflation



Mutual Funds: Performance and Stability

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

Type of Fund (PKR bln) As at	Dec'17	Dec'18	Dec'19	Dec'20	Dec'21	Dec'22
Open-end	537	552	651	920	1,088	1,531
Closed-end	2	1	-	-	-	1
Voluntary Pension	24	26	30	35	39	43
AUMs	563	579	681	955	1,127	1,575

Type of Fund (PKR bln) As at	Jun'17	Jun'18	Jun'19	Jun'20	Jun'21	Jun'22
Open-end	581	580	513	742	1,016	1,211
Closed-end	2	2	1	-	-	-
Voluntary Pension	25	26	26	31	38	41
AUMs	608	608	540	773	1,054	1,252

Mutual Funds: Performance and Stability

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: Performance and Stability

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'19		Dec'20		Dec'21		Dec'22	
	Count	%	Count	%	Count	%	Count	%
Equity	27	10%	27	16%	27	10%	28	10%
Islamic Equity	18	7%	19	7%	19	7%	21	7%
Asset Allocation	14	5%	15	2%	14	5%	13	5%
Islamic Asset Allocation	11	4%	12	2%	12	4%	12	4%
Balanced	5	2%	5	1%	4	1%	4	1%
Others	195	72%	201	72%	202	73%	207	73%
Total	270	100%	279	100%	278	100%	285	100%

Mutual Funds: Performance and Stability

Market Share | Asset Management Companies

Mutual Funds Industry - Assets Under Management							
(Open End & VPS, excluding Fund of Funds) - PKR bln							
S.No.	Asset Management Company	Dec-22		Jun-22	Jun-21	Dec-20	Jun-20
		Market Share	AUMs	AUMs	AUMs	AUMs	AUMs
1	Al-Meezan Investment Management Limited	17%	267	173	189	163	152
2	NBP Fund Management Limited	14%	213	169	168	163	127
3	UBL Fund Managers Limited	10%	165	116	102	91	78
4	MCB-Arif Habib Savings and Investments Limited	10%	160	110	98	83	66
5	HBL Asset Management Limited	10%	156	94	72	78	58
6	ABL Asset Management Limited	8%	127	89	79	67	59
7	National Investment Trust Limited	6%	88	88	90	85	69
8	Faysal Asset Management Limited	7%	104	76	62	47	30
9	Alfalah GHP Investment Management Limited	5%	75	60	55	50	40
10	Atlas Asset Management Limited	3%	49	52	50	40	30
11	Al Habib Asset Management Limited	5%	75	40	33	26	14
12	JS Investment Limited	3%	43	23	17	24	19
13	Lakson Investments Limited	2%	26	20	23	22	19
14	Pak Oman Asset Management	1%	9	8	6	7	4
15	AKD Investment Management Limited	0%	6	7	9	7	5
16	AWT Investment Management Limited	0%	4	2	2	2	3
17	786 Investments Limited	0%	1	1	1	1	1
18	First Capital Investments Limited	0%	0.1	0.1	0.1	0.1	0.1
19	BMA Asset Management Company Limited	0%	0.0	0.0	0.4	0.4	0.2
20	Pak Qatar Asset Management Company Limited	0%	5	0.0	0.0	0.0	0.0
Total:		100%	1,574	1,127	1,054	955	773

Mutual Funds: Performance and Stability

Net Sales

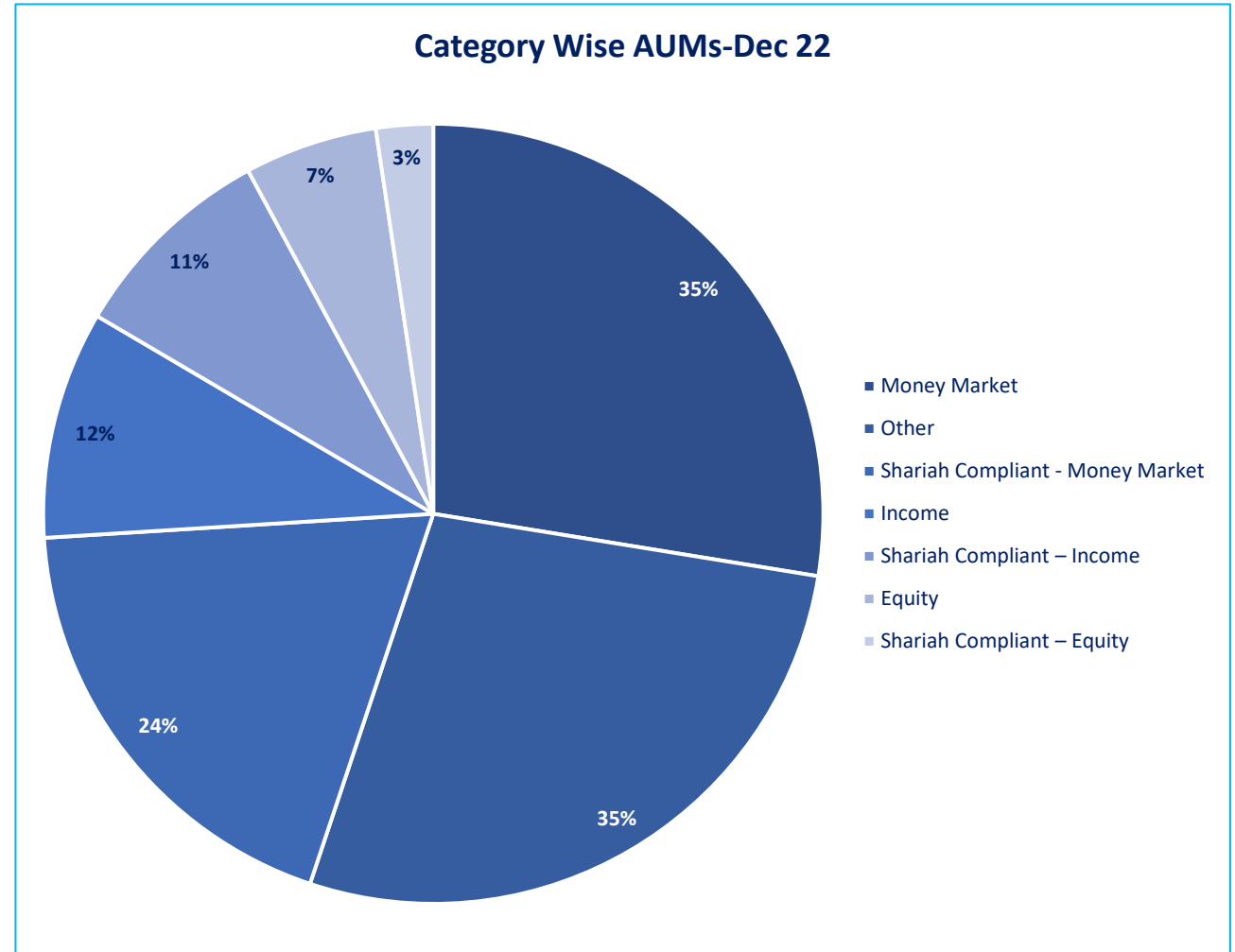
- Sales of mutual funds during CY22 stood at PKR~4,312bln (CY21: PKR~2,344bln) while redemptions during the year clocked in at PKR~3,896bln (CY21: PKR~2,211bln).
- As a result, net sales of mutual funds amounted to PKR~477bln during CY22 (CY21: PKR~132bln), contributing to the significant growth in AUMs in the same period.
- The Shariah compliant money market category experienced the highest level of net sales standing at PKR~176bln closely followed by the conventional money market category with net sales standing at PKR~171bln and accounting for ~37% and ~36%, respectively, of total net sales.
- Meanwhile, the income and Shariah Compliant Income segments demonstrated the next highest level of net sales accounting for ~8% and ~10%, respectively, of total net sales.
- What sets CY22 net sales activity apart from CY21 is the increased interest in the Shariah compliant money market category. Net sales in this category increased by ~10% from CY21.
- Net sales in the conventional equity and Shariah compliant equity categories decreased by ~6% and ~23% from CY21 owing to volatility and uncertainty in equity markets.

Net Sales (PKR mln)	CY22		
	Sales	Redemptions	Net Sales
Open End			
Money Market	2,123,266	2,002,682	170,630
Income	519,579	464,764	46,514
Equity	20,896	40,705	(19,378)
Shariah Compliant Money Market	1,040,973	866,865	176,178
Shariah Compliant Income	310,061	255,075	37,245
Shariah Compliant Equity	47,512	60,074	(13,497)
Other	224,924	183,565	76,660
VPS	24,984	22,511	2,249
ETF	298	193	169
Total	4,312,493	3,896,434	476,771

Mutual Funds: Performance and Stability

Category Wise AUM Break Up

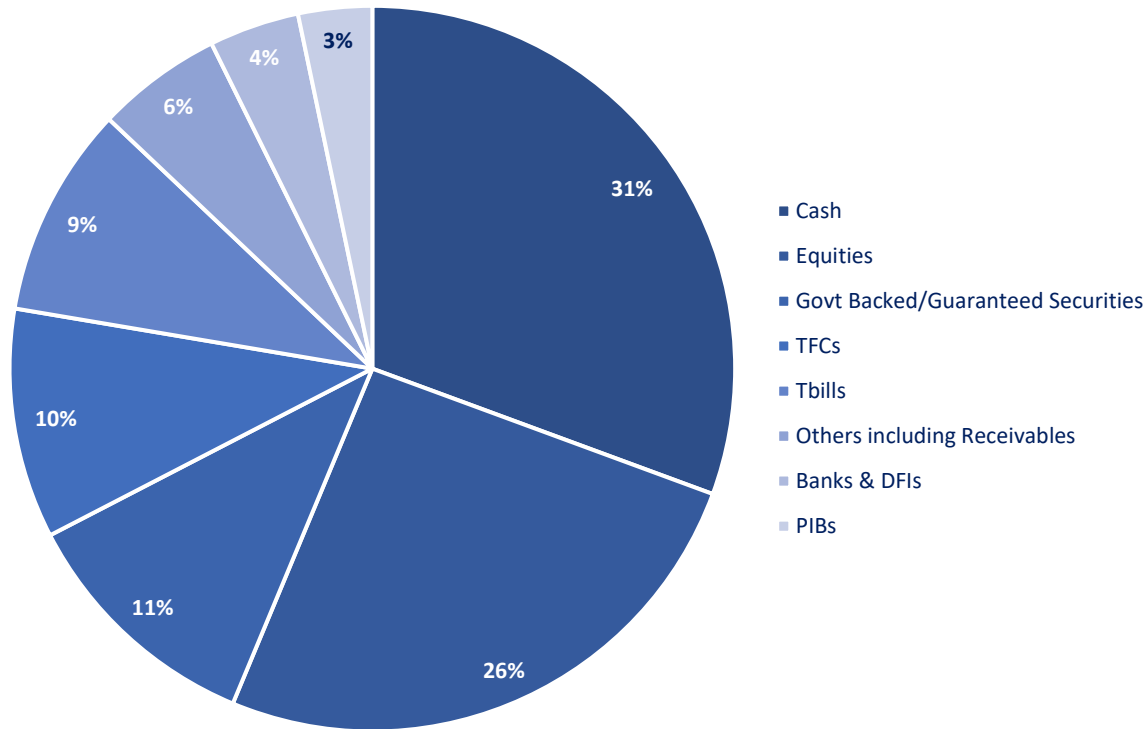
Break Up of Assets Under Management (Dec-22)	
Category	AUMs (PKR bln)
Money Market	551
Shariah Compliant Money Market	378
Equity	110
Income	189
Shariah Compliant Income	173
Shariah Compliant Equity	47
Other	126
Total AUMs	1,574



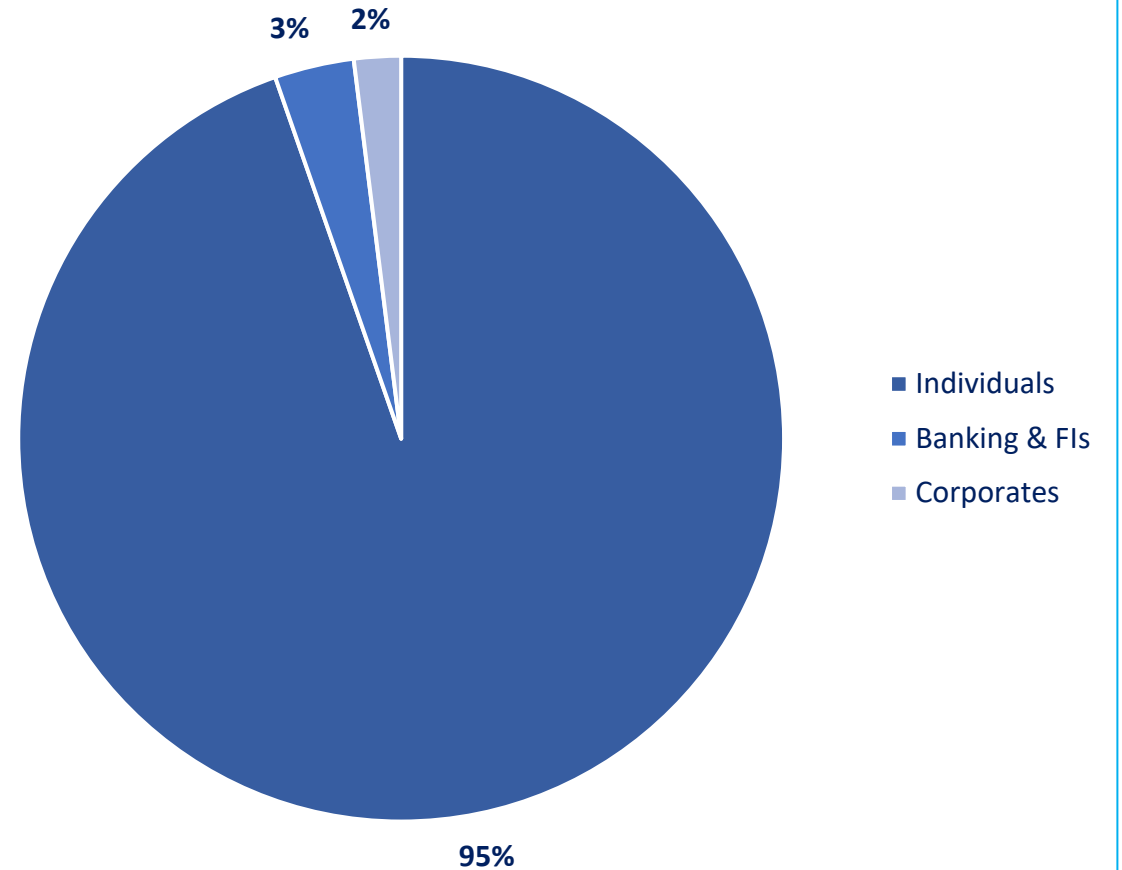
Mutual Funds: Performance and Stability

Asset Allocation

Asset Allocation (Dec-22)



Unit Holder Pattern (Dec-22)



Mutual Funds: Performance and Stability

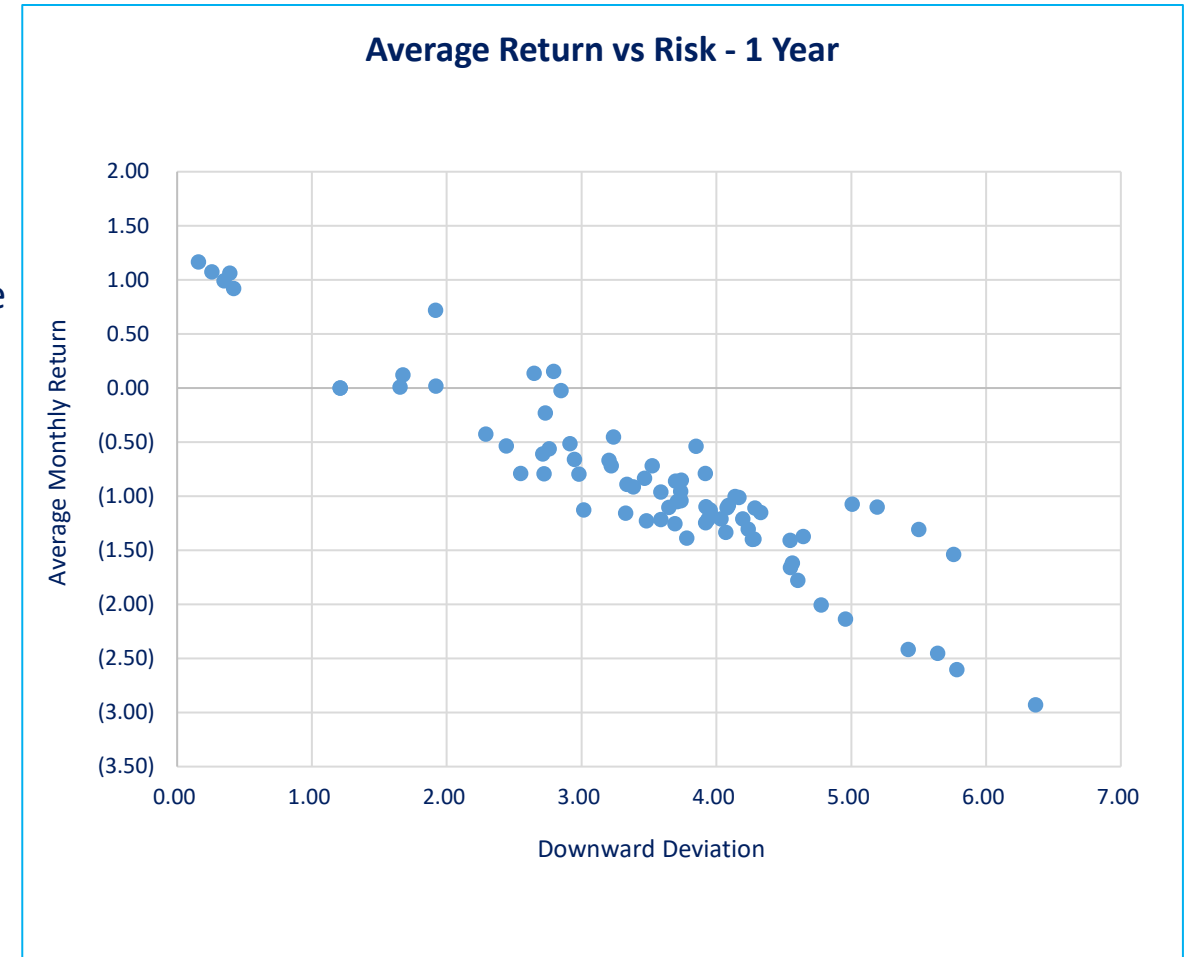
Industry Returns

Weighted Average Return of Industry												
Category	Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22
Money Market	10.59%	9.65%	8.46%	9.31%	11.74%	14.32%	12.82%	10.89%	12.01%	11.91%	10.84%	12.81%
Shariah Compliant Money Market	9.60%	9.40%	9.36%	10.09%	11.27%	13.60%	12.41%	11.71%	12.75%	11.77%	12.01%	7.96%
Income	10.34%	9.68%	7.01%	7.37%	7.91%	9.72%	10.46%	11.07%	12.43%	11.73%	10.07%	12.69%
Shariah Compliant Income	9.15%	8.60%	7.04%	9.33%	10.54%	12.37%	12.57%	11.23%	12.89%	12.83%	12.50%	13.59%
Shariah Compliant Equity	0.33%	-1.58%	-1.01%	-0.87%	-7.21%	-2.76%	-2.70%	6.10%	-3.97%	0.90%	2.73%	-4.24%
Equity	-1.41%	-1.22%	-2.85%	-3.48%	-8.54%	-7.33%	-3.13%	2.75%	-3.75%	-2.57%	-1.74%	-5.94%

Mutual Funds: Performance and Stability

Downside Deviation – 1 Year

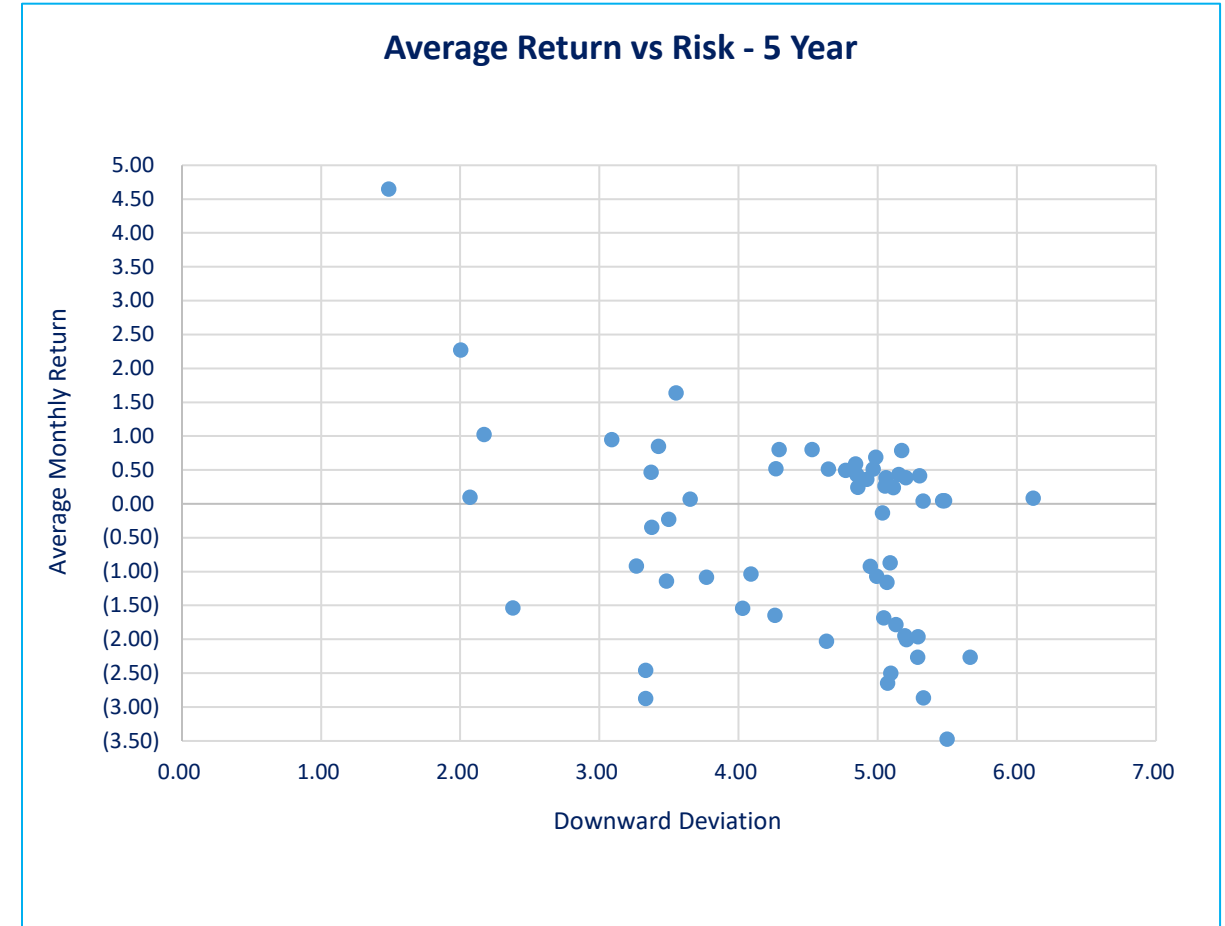
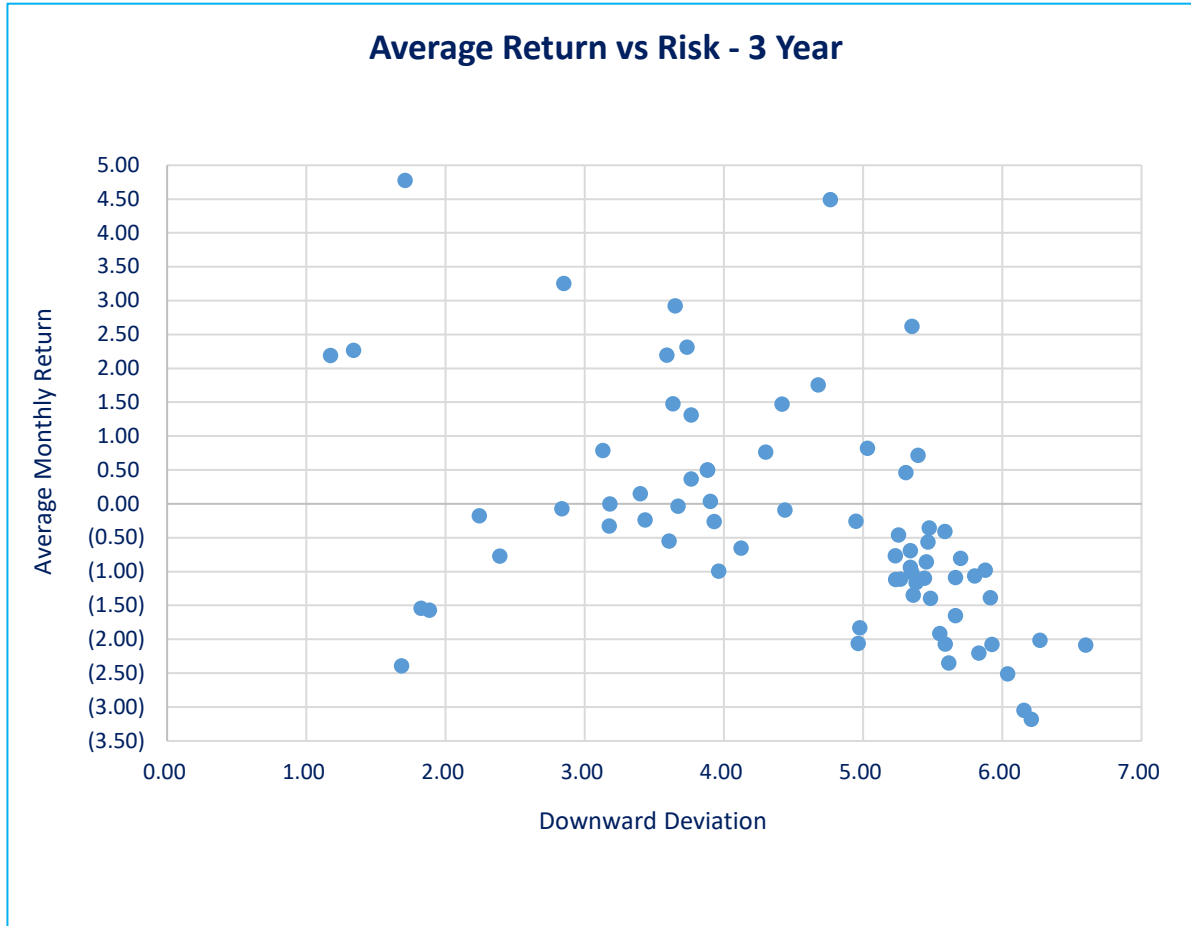
- Downside deviation is a measure of downside risk which is calculated using the returns which fall below a minimum benchmark or Minimum Acceptable Return (MAR).
- The downside deviation can then be used to calculate a Risk Adjusted Return (RAR) for the mutual funds.
- An advantage of downside risk is 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, a large number of mutual funds fall within a downside deviation range of 2.0-4.5%.
- Meanwhile, the graphs for 3-year period and 5-year period (in the next slide) show mutual funds clustered around downside deviation of 5-6% and 4.5-5.5%, respectively.



Note: Downside deviation calculated for 1 year period is based on 77 mutual funds in the categories rated by PACRA.

Mutual Funds: Performance and Stability

Downside Deviation – 3 Year & 5 Year



Note: Downside deviation calculation for 3-year and 5-year periods is based on 74 and 60 mutual funds, respectively in the categories rated by PACRA.

Mutual Funds: Performance and Stability

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: Performance and Stability

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.

- Deteriorating economic indicators may reduce investor confidence

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: Performance and Stability

Outlook: Stable

- In FY22, Pakistan's real GDP grew by ~6.2% (FY21: ~6.5%) while the LSM posted a growth of ~11.7 (CY21: ~11.2%). During this time, average monetary policy rate was ~9.67% (FY21: ~7.00%) while average inflation stood at ~12.10% (FY21: ~8.90%). The economic environment was conducive to industrial productivity and economic growth.
- However, the FY22 performance was only short-lived as global supply chain issues and accelerating demand pressures in a post-pandemic economic environment meant that central banks around the world, including Pakistan, had to take necessary and urgent actions to curb resulting mounting inflationary pressures. In April-22 the SBP hiked the policy rate by 250 basis points to 12.25%. This hike in policy rate continued throughout the 1HFY23 and the policy rate currently stands at 17% while the average policy rate for the 7MFY23 period is ~15.28%, substantially higher than the average rate for 7MFY22 period (~7.92%).
- Apart from mounting supply chain issues and accelerating demand pressures, FY23 commenced with catastrophic flashfloods in Aug-22 which wiped out or significantly damaged standing Kharif crops and caused a loss of over USD~30bln (based on World Bank estimates). In addition, the GDP growth forecast has shrunk from a projected ~5.0% at the start of the FY23 to ~1%-2% presently.
- Additionally, the 9th IMF review is pending approval and until the USD~1bln tranche arrives, the country's economic outlook remains on the brink. A shortage of dollars in the country has been host to a wide range of problems including foreign currency reserves at a dangerously low level of USD~8.5bln (as at Feb 03, CY23) – USD~2.9bln with SBP and USD~5.6bln with Banks; restrictions in opening of Letters of Credit by commercial banks which has severely impacted operations in several sectors; a negative current account balance of USD~(5.8)bln in the 6MFY23 period; and rupee devaluation of ~30% in the 7MFY23 period from the SPLY.
- These negative sentiments has reigned in on the stock exchange – the KSE-100 index posted a negative growth of -10% in the 7MFY23 period (SPLY: ~2%) while volumes have remained on the lower end in the 7MFY23 period at ~95mln compared to ~124mln in the SPLY.
- In CY22, the mutual funds assets under management grew to PKR~1.6bln from ~PKR1.3bln generating a growth of ~40% (SPLY growth: 18%).The strong performing funds over this time frame have been fixed income and money market funds while equity funds have been relatively poorly performing.
- The performance and safety of mutual funds as an investment vehicle rests on the stability of Pakistan's economic and political environment. If the IMF review is successfully completed, this will positively reflect on economic sentiment and help bring relief to the economy. This will bode well for the mutual fund industry which is considered a relatively safe investment option over direct equity investment.

Mutual Funds: Performance and Stability

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- International Monetary Fund (IMF)
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