



Asset Managers

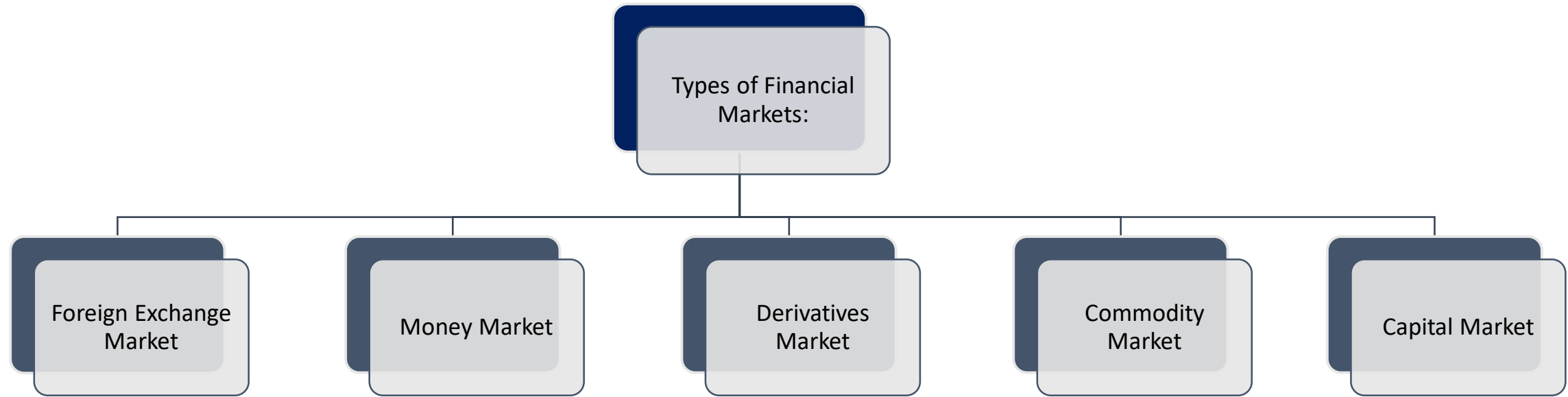
Sector Study

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Types of Financial Markets



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.

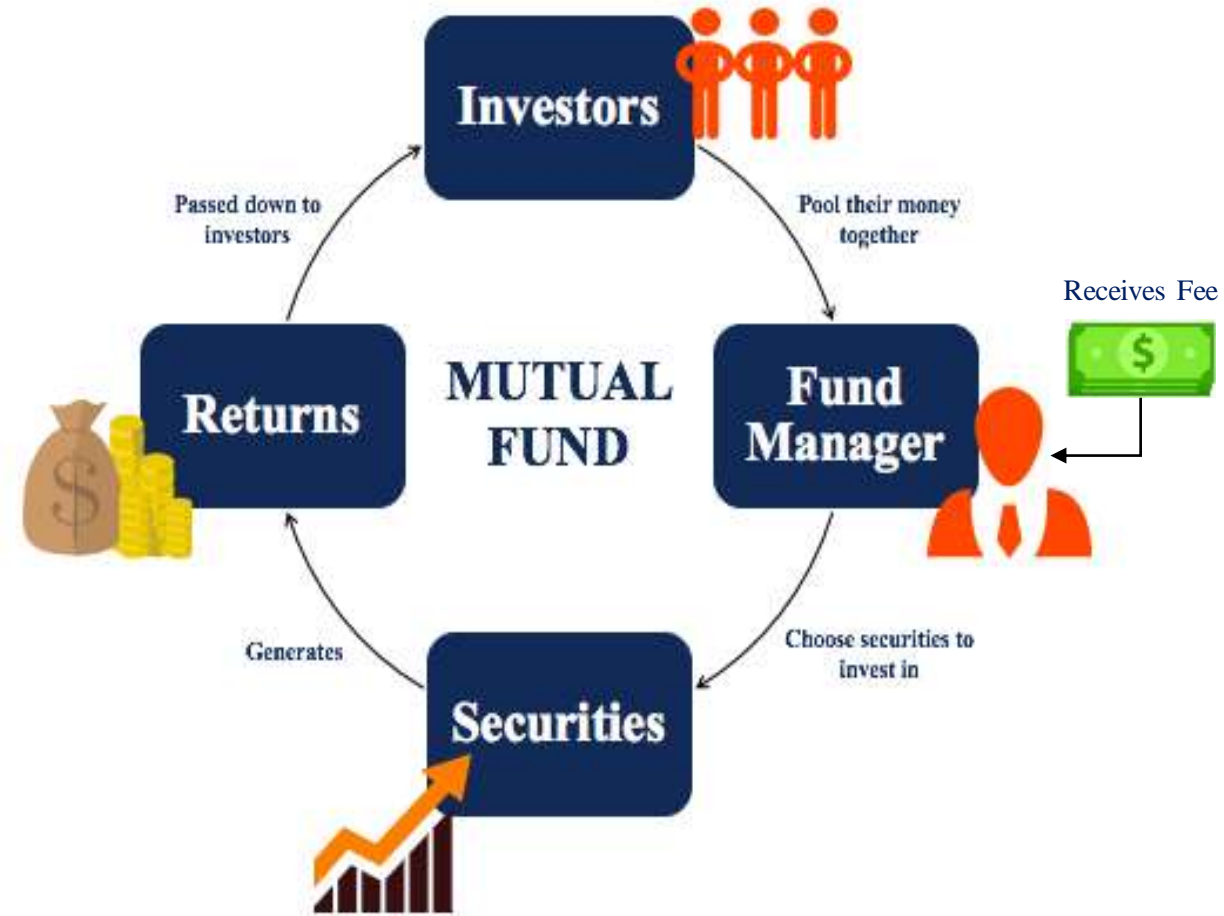
Capital markets refer to the places where savings and investments are moved between suppliers of capital and those who are in need of capital. The most common capital markets are the stock market and the bond market.

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.

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 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.

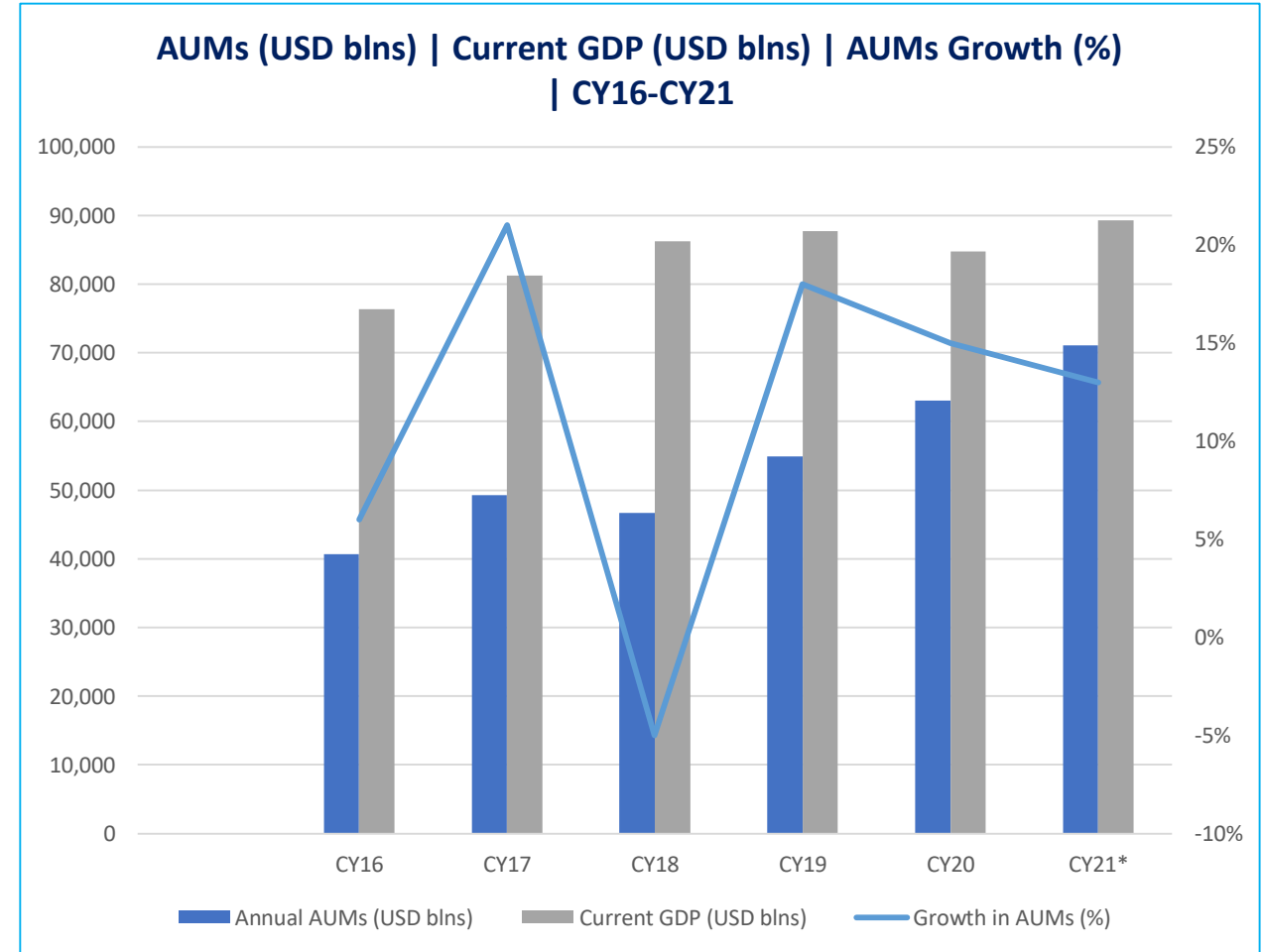


ASSET MANAGERS | GLOBAL INDUSTRY

World AUMs

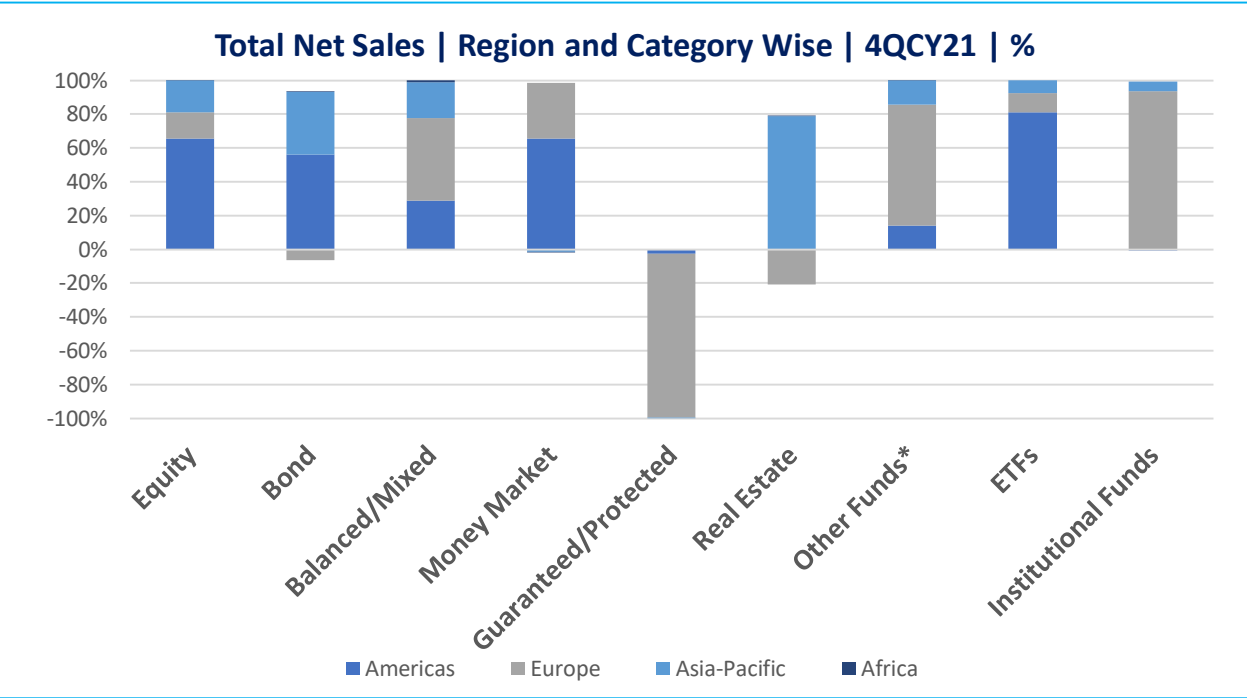
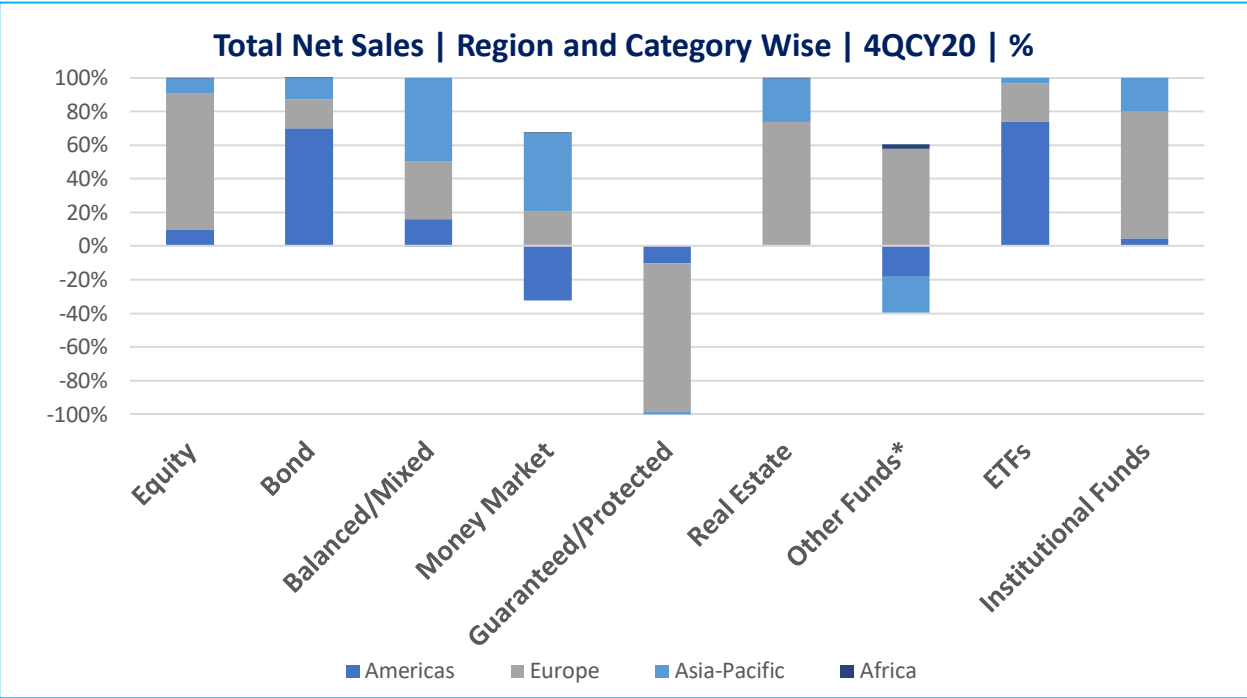
Period	CY16	CY17	CY18	CY19	CY20	CY21
AUMs (USD bln)	40,644	49,301	46,696	54,877	63,035	71,053
Growth	6%	21%	-5%	18%	15%	13%

- Global Open-End Fund Assets increased by ~13% YoY in CY21 clocking in at USD~71.0trn. CY21 was a record year in which investors poured in ~USD 3,944 bln an increase of ~49% on the CY20 level. Low interest rate environments and fiscal stimulus packages resulted in the recovery of global equity markets boosting investor confidence overall.
- The growth rate of the AUMs market has historically remained volatile. Average CAGR for the Open-End Fund Assets is recorded at ~9.3% from CY16 to CY21.
- 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 (~53% vs. Europe: ~33% and Asia-Pacific: ~14%).
- In terms of fund flows, ~72% of the net sales were in long-term funds while the remainder 28% was in money market funds. Equity funds accounted for ~37% of net sales in 4QCY21 (3QCY21: ~ 29%) on the back of strong equity market performance.
- ETF sales increased by ~75% in CY21 accounting for ~32.5% total open-end fund annual net sales (CY20: ~27.2%).



*CY21 GDP is based on a projected growth rate of ~5.4%

World Open-End Funds | Distribution of Investments



- ETFs recorded the highest level of inflows in 4QCY21 in the Americas increasing by ~44% from the SPly and comprising ~31% of transaction activity in CY21. However, the most dramatic increase in sales volume was of equity funds which increased by ~938% in 4QCY21 from 4CY20.
- In Europe the net sales activity for institutional funds was the highest increasing by ~96% taking away business from equity funds which witnessed a ~71% drop in inflows in 4QCY21 from the SPly. In addition, there is a clear shift in focus as evident by the ~112% drop in net flows for real estate funds and a growth in net sales for other funds by ~296%.
- In Asia-Pacific the popularity of money market funds decreased considerably in 4QCY21 from 4QCY20 with net sales dropping by a massive ~104% while interest in bond funds and real estate funds picking up. Regional real estate cash flow activity accounted for ~79% of global real estate fund net sales, on an absolute basis, in 4QCY21.

Other Funds include guaranteed/protected funds.

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Region Wise Asset Allocation & Number of Funds

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

Region	CY18	CY19	CY20	CY21
Americas	50.6%	52.2%	51.3%	52.8%
Europe	35.3%	34.3%	34.5%	32.8%
Asia & Pacific	13.8%	13.2%	13.9%	14.1%
Africa	0.3%	0.3%	0.3%	0.3%
Total	100.0%	100.0%	100.0%	100.0%

Worldwide Open-End Funds: Number (%)

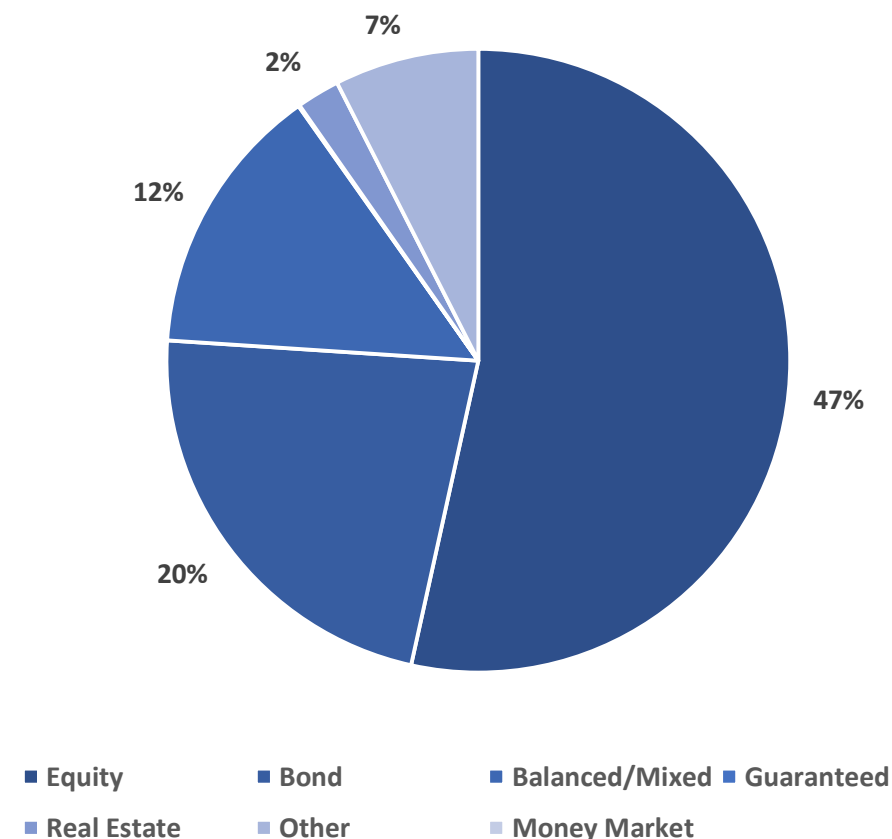
Region	CY18	CY19	CY20	CY21
Americas	23.4%	23.4%	24.1%	25.1%
Europe	47.3%	46.5%	45.9%	44.8%
Asia & Pacific	27.9%	28.8%	28.6%	28.9%
Africa	1.3%	1.3%	1.3%	1.3%
Total	100%	100.0%	100.0%	100.0%

- Rising equity markets boosted global investment activity in the asset management industry with net sales activity crossing the USD 1 trln mark.
- In Europe total net AUMs in open-end mutual funds rose to ~USD 23.3 bln from ~USD 21.8 bln by the end of CY21. Asset management is mainly concentrated in six European countries which accounts for ~85.0% of the asset management activity taking place in the continent with UK being the largest with a share of ~36.7%.
- In the Americas, total net assets increased by ~25.8% in CY21 from CY20 for all countries except Chile. The US accounts for ~96% of this increase, Canada ~5.1%, and Brazil ~3.3%.
- In Asia-Pacific, AUM grew by ~32.6 in CY21 for all countries. China accounted for ~35.3% of this increase, Australia ~26.2%, and Japan ~24.2%.
- The number of funds increased by a minor ~4.9% in CY21. The largest growth was observed in Americas of ~9.1% followed by Asia-Pacific of ~5.8% with Europe experiencing the weakest growth of ~2.1%.
- In terms of individual countries, the highest number of funds were concentrated in Luxemburg and Brazil (14,445 and 15,249, respectively) in CY21.

Asset Allocation by Fund Type

- Global Open-End Fund Market is dominated by long term investments which comprise ~87% of the open-end fund universe compared to money market funds which comprises the remainder ~13%.
- Equity funds account for ~47% of the global open-end fund assets, followed by bonds (~20%) and money market funds (~12%).
- During CY21, global net sales of the open-end fund market was recorded at USD~3.9trn (USD~2.6trn in CY20), up ~50% YoY basis.
- In terms of asset allocation, the greatest increase in global open-end funds assets was witnessed in money market funds increasing by ~34% YoY in CY21. These were followed by an YoY increase of ~24% in balanced/mixed funds in CY21 and ~20% in other funds.

Net Assets of Worldwide Regulated Open-End Funds | CY21



Regional Market | Asia & Pacific AUMs

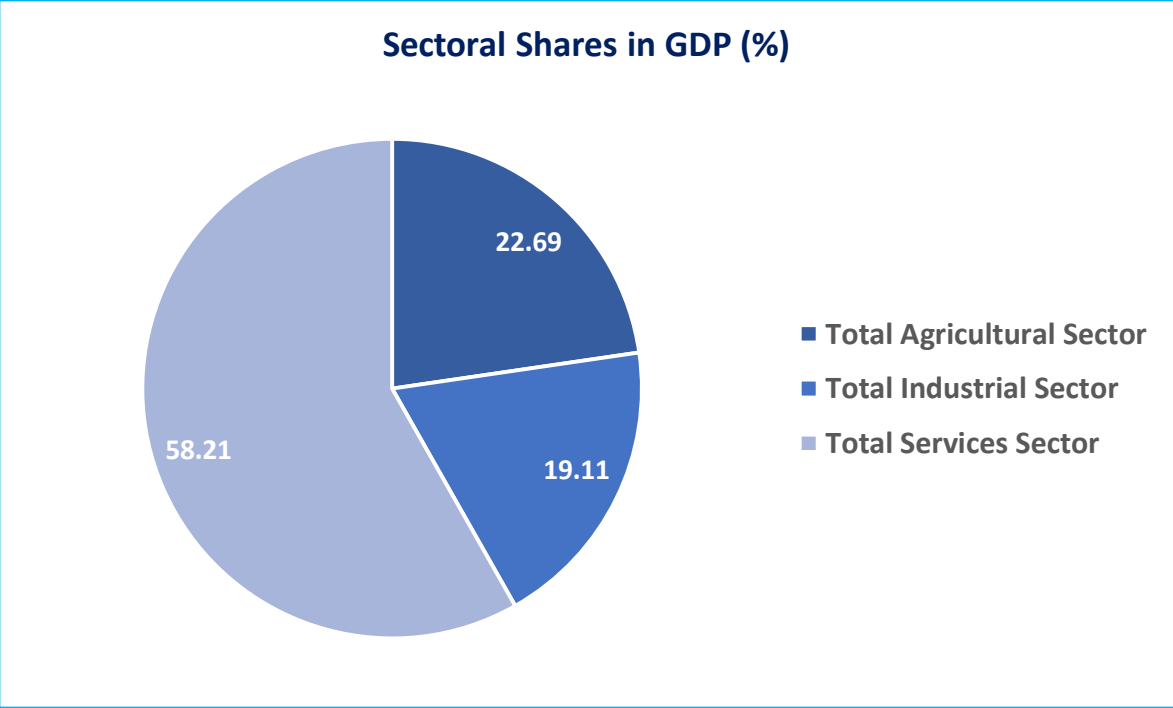
CY21									
USD bln	China	Australia	Japan	Korea	India	Taiwan	New Zealand	Philippines	Pakistan
AUMs	3,530	2,618	2,415	643	506	172	109	9	6
GDP	14,723	1,331	4,975	1,631	2,623	668	211	361	338
Regional AUMs as % of world AUMs	18.04%	14.40%	13.55%	3.57%	2.57%	0.93%	0.58%	0.05%	0.04%

- Asia & Pacific accounts for ~14% of the Global Open-End Fund Assets and ~29% of the Number of Global Open-End Funds (CY21).
- 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 also has relatively low open-end fund assets as a percentage of economy (USD~506bln, ~19% 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 2021 (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	71,958	16,188	60,918	9,714	47,469	5,489	211,736
Individuals	11,548	66,184	35,463	40,449	2,346	7,199	163,189
Retail	1,482	97,493	3,654	12,517	1,163	5,401	121,710
Banks/FIs	3,307	116	4,246	28	494	54	8,224
Foreign Institutional Investors	23	423	141	61	13	0	662
Total	88,318	180,404	104,423	62,769	51,485	18,143	505,541

GDP Break Up

- Pakistan's GDP grew by ~6.0% in FY22 and stood at PKR~38,755bln as compared to PKR~36,573bln in FY21. Meanwhile, nominal GDP for FY22 stood at PKR~66,950bln.
- 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.



FY22 Sector Wise GDP Break-Up (%)*	
Crops	7.84
Livestock	14.04
Forestry	0.49
Fishing	0.32
Total Agricultural Sector	22.69
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	18.90
Wholesale & Retail Trade	18.83
Transport, Storage & Communication	13.08
Finance & Insurance	1.86
Housing Services	5.57
General Government Services	4.64
Other Private Services	14.23
Total Services Sector	58.21

Note: GDP value is at constant basic prices of 2015-16. *Sectoral shares in GDP are based on provisional figures

Macro Economic Indicators

	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	11MFY22
Average Inflation Rate (CPI)	7.40%	8.60%	4.50%	2.90%	4.20%	3.90%	7.30%	10.70%	8.91%	11.26%
Average KIBOR	9.84%	9.88%	8.85%	6.49%	6.11%	6.39%	10.43%	11.95%	7.43%	10.39%
Monetary Policy Rate (MPR)	9.91%	9.75%	8.75%	6.04%	5.75%	5.95%	9.69%	11.75%	7.00%	9.21%
PKRV	9.63%	9.75%	8.67%	6.34%	5.95%	6.26%	10.20%	11.79%	7.28%	10.25%
Average Exchange Rate	96.83	102.84	101.47	104.37	104.78	110.11	136.45	158.40	160.46	175.33
(USD mln)	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	10MFY22
Current Account Balance	-2,496	-3,130	-2,815	-4,961	-12,270	-19,195	-13,434	-4,449	-2,820	-13,156
Exports of goods	24,802	25,078	24,090	21,972	22,003	24,768	24,257	22,536	25,639	23,698
Imports of goods	40,157	41,668	41,357	41,118	48,001	55,671	51,869	42,417	54,273	53,799
Trade Balance	-15,355	-16,590	-17,267	-19,146	-25,998	-30,903	-27,612	-19,910	-28,634	-30,101
Foreign Exchange Reserve	11,020	14,141	18,699	23,099	21,403	16,384	14,482	18,886	24,398	16,553

Macro Economic Indicators | Monthly

	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22	Apr-22
Average Inflation Rate (CPI)	9.30%	8.20%	9.00%	8.90%	8.30%	8.00%	5.70%	8.70%	9.10%	11.10%
Average KIBOR	7.63%	7.57%	7.80%	8.45%	9.34%	11.31%	11.32%	10.82%	11.85%	13.34%
Monetary Policy Rate (MPR)	7.00%	7.00%	7.25%	7.25%	8.75%	9.75%	9.75%	9.75%	9.75%	12.25%
PKRV	7.49%	7.42%	7.68%	8.38%	9.29%	11.10%	11.13%	10.67%	11.71%	13.13%
Average Exchange Rate	159.85	164.47	168.45	172.02	173.51	177.55	176.54	175.68	179.89	184.60
(USD mln)	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22	Apr-22
Current Account Balance	- 851	-1,523	-1,152	-1,779	-1,929	-1,857	-2,531	-519	-1,015	-623*
Exports of goods	2,235	2,339	2,627	2,375	2,737	2,929	2,497	2,888	3,071	3,154*
Imports of goods	5,371	5,967	6,057	5,930	6,339	6,431	6,314	5,143	6,247	6,001*
Trade Balance	-3,136	-3,628	-3,430	-3,555	-3,602	-3,502	-3,817	-2,255	-3,176	-2,847*
Foreign Exchange Reserve	24,776	27,068	25,983	23,829	22,329	23,883	22,836	22,638	17,426	16,406

*Note: Data is based on provisional figures

T-Bills & PIBs

CY21 T-Bills Auction	Average Yield		
Total Realized Amount (PKR bln)	3M	6M	12M
17,843	7.80%	8.07%	8.71%

1QCY22 T-Bills Auction	Average Yield		
Total Realized Amount (PKR bln)	3M	6M	12M
3,982	10.66%	11.26%	11.43%

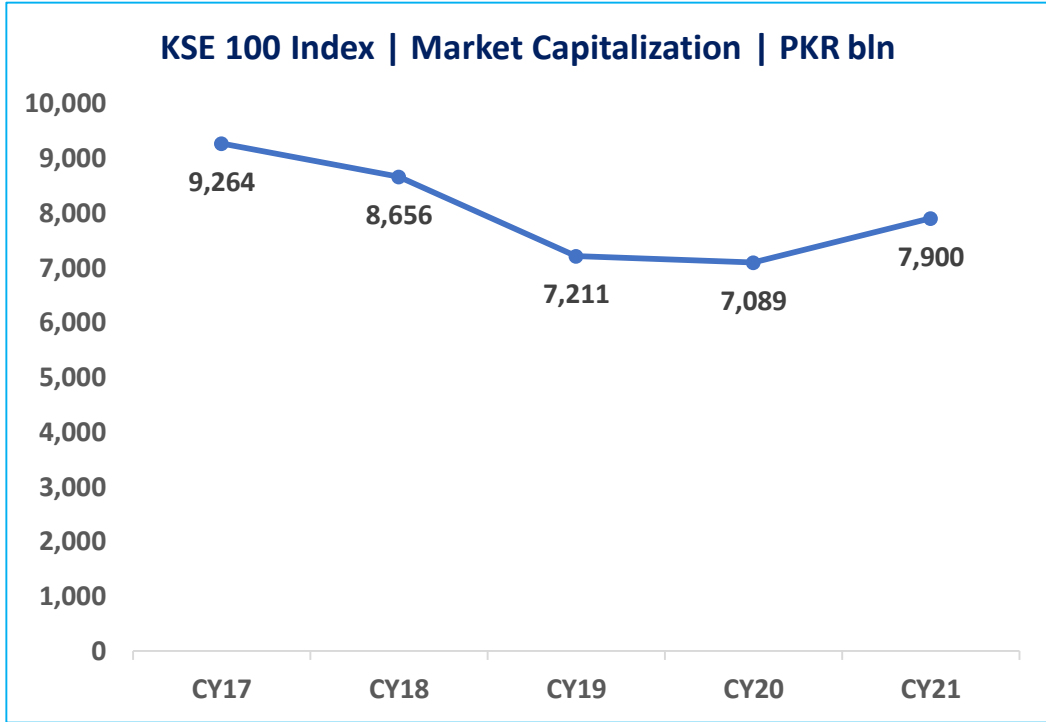
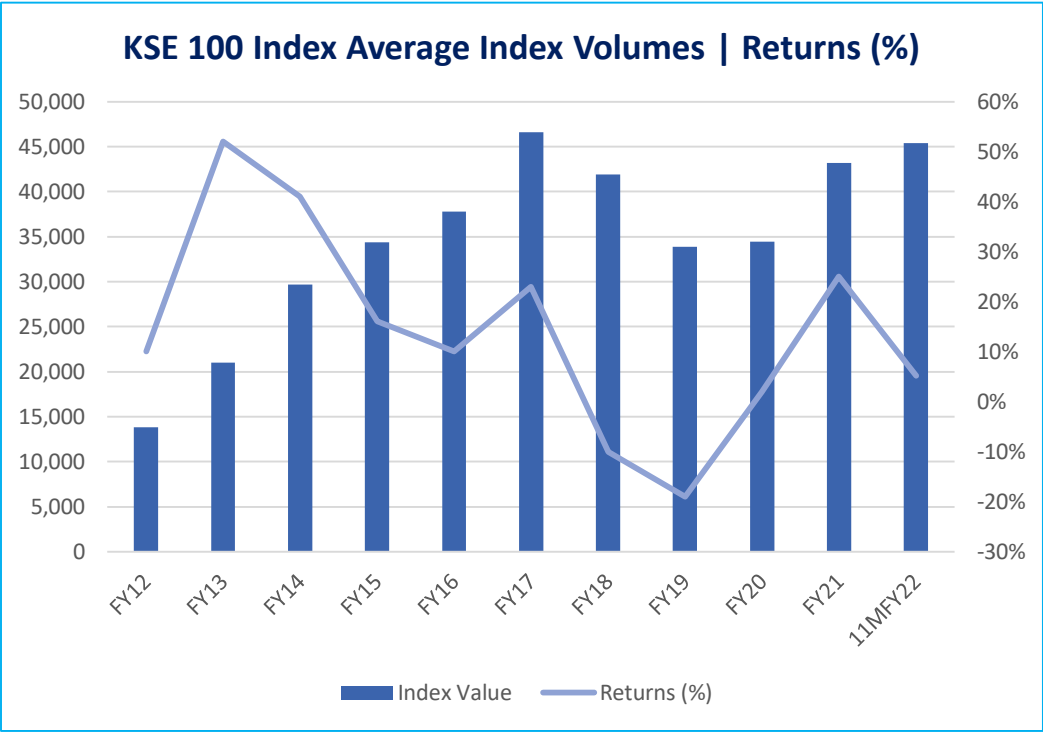
CY21 PIBs Auction			
Tenure	Amount Accepted (PKR bln)	Coupon Rate	Weighted Average Yield
3 Year	658	7.00%	9.55%
5 Year	446	7.50%	9.75%
10 Year	217	8.00%	10.30%
15 Year	86	10.50%	10.41%
20 Year	37	11.00%	10.56%

1QCY22 PIBs Auction			
Tenure	Amount Accepted (PKR bln)	Coupon Rate	Weighted Average Yield
3 Year	182	7.00%	11.05%
5 Year	175	7.50%	11.06%
10 Year	128	8.00%	11.09%
15 Year	0	10.50%	-
20 Year	0	11.00%	-

ASSET MANAGERS | LOCAL INDUSTRY

KSE-100 | Performance

KSE 100 Index	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	11MFY22
Index Value	13,801	21,006	29,653	34,399	37,784	46,565	41,911	33,902	34,422	43,151	45,372
Returns (%)	10%	52%	41%	16%	10%	23%	-10%	-19%	2%	25%	5%



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

Types of Mutual Funds | Total AUMS Including Fund of 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
- While AUMs were above the PKR ~1trln mark in April CY22, there was a drop from the December 2021 level of ~2.4%.

Type of Fund (PKR bln) As at	Dec'17	Dec'18	Dec'19	Dec'20	Dec'21	Apr'22
Open-end	511	517	632	914	1,089	1,038
Voluntary Pension	24	26	30	35	39	40
AUMs	535	543	662	949	1,128	1,078

Type of Fund (PKR bln) As at	Jun'17	Jun'18	Jun'19	Jun'20	Apr'21	Jun'21
Open-end	539	528	487	730	933	1,014
Voluntary Pension	25	26	26	31	36	38
AUMs	564	554	513	761	969	1,052

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 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 | Categories

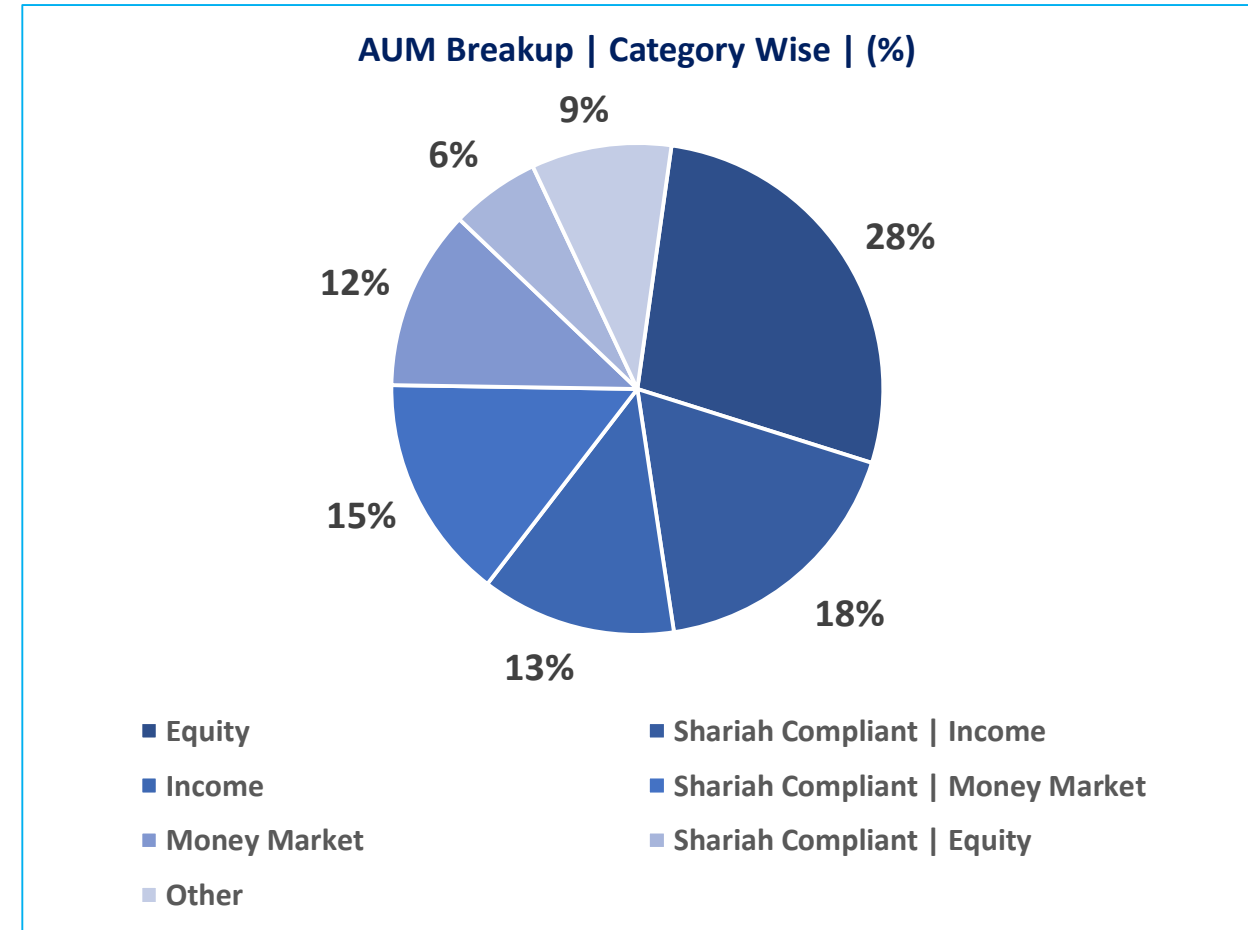
- **Income Scheme:** These funds focus on providing investors with a steady stream of fixed income. They invest in short term and long term debt instruments like TFCs, government securities like T-bills/ PIBs, or preference shares.
- **Aggressive Fixed Income Scheme:** The aim of aggressive income fund 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		Jun'20		Dec'20		Jun'21		Dec'21	
Equity	27	11%	27	11%	27	11%	27	11%	27	10%
Islamic Equity	19	8%	19	8%	19	7%	19	7%	19	7%
Asset Allocation	13	6%	14	2%	14	5%	14	5%	14	5%
Islamic Asset Allocation	11	5%	11	6%	12	5%	12	6%	12	5%
Balanced	4	2%	4	2%	4	2%	4	2%	4	2%
Others	162	69%	168	69%	179	70%	179	70%	186	71%
Total	236	100%	243	100%	255	100%	255	100%	262	100%

ASSET MANAGERS | LOCAL INDUSTRY

Category Wise AUM Break Up

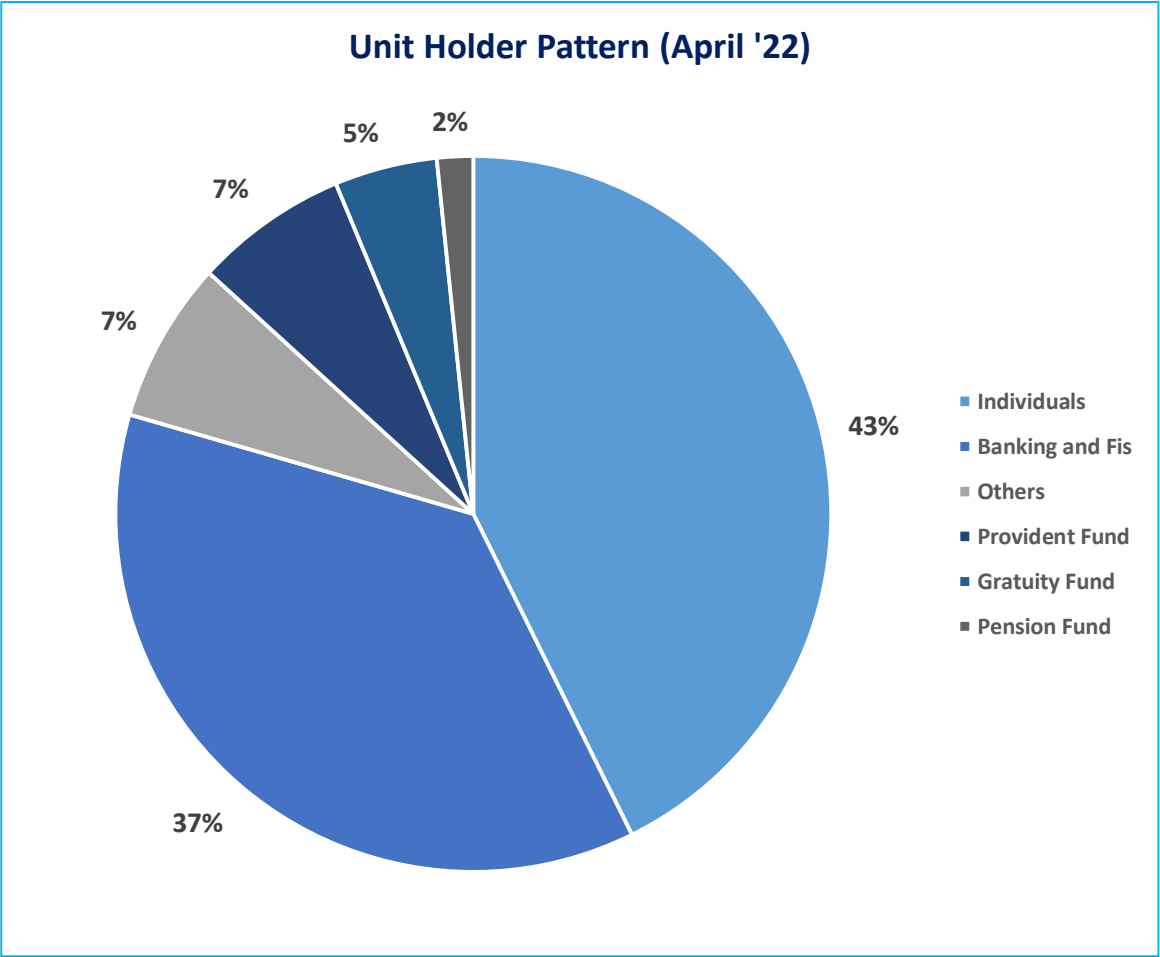
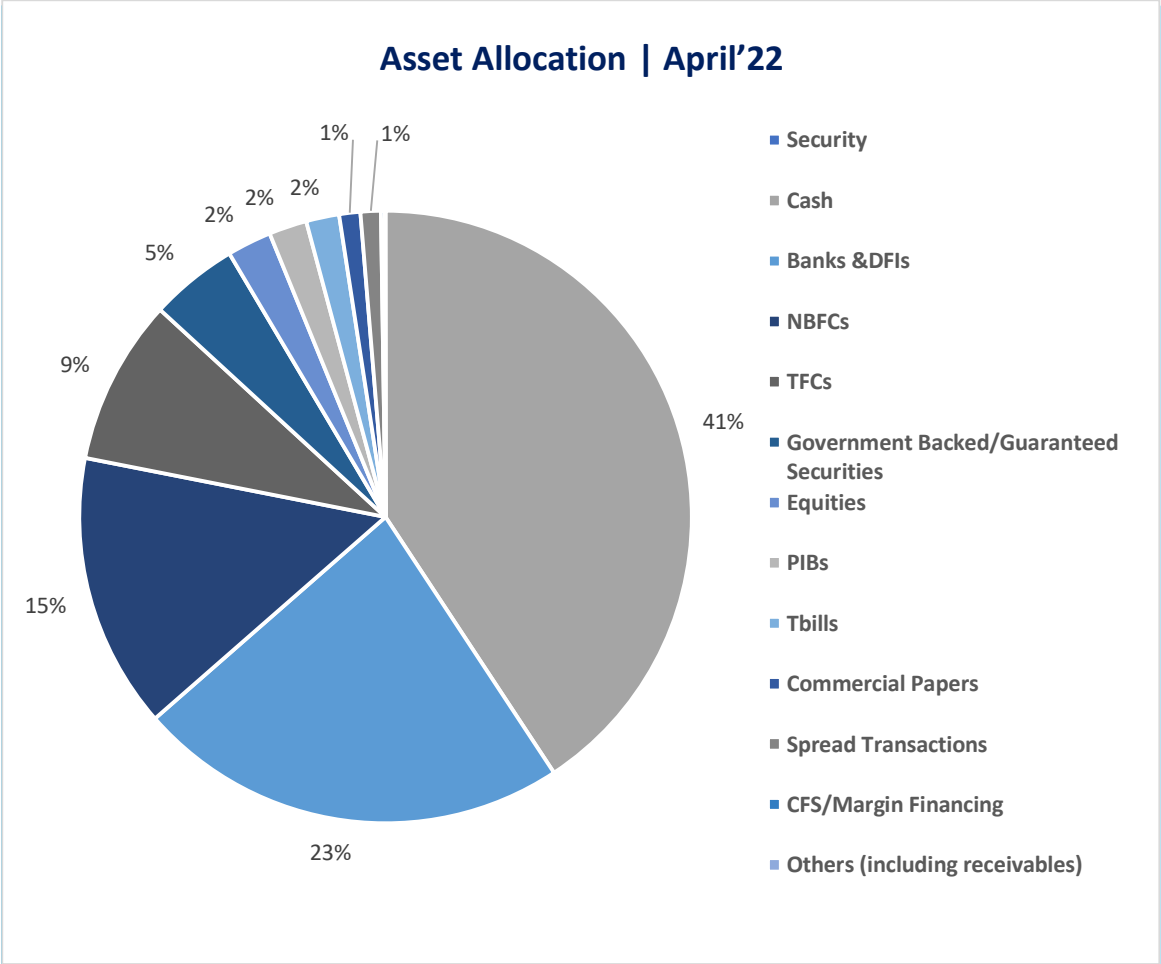
Assets Under Management Break Up (Apr'22)	
Category	AUMs (PKR bln)
Money Market	291
Shariah Compliant Money Market	187
Equity	135
Income	156
Shariah Compliant Income	125
Shariah Compliant Equity	62
Other	97
Total AUMs	1,040



Market Share

Mutual Funds Industry - Assets Under Management (Open End & VPS, excluding Fund of Funds) - PKR bln						
S. No	Asset Management Company	Apr-22		Apr-21	Dec-21	Dec-20
		Market Share	AUMs	AUMs	AUMs	AUMs
2	Al-Meezan Investment Management Limited	16.5%	174.4	167.3	169.2	163.0
1	NBP Fund Management Limited	16.1%	170.3	171.9	168.2	163.4
6	HBL Asset Management Limited	10.4%	110.3	70.7	94.1	78.3
4	UBL Fund Managers Limited	9.1%	96.4	90.1	115.8	90.6
3	MCB-Arif Habib Savings and Investments Limited	8.6%	90.9	92.1	109.8	82.7
7	ABL Asset Management Limited	8.5%	89.9	72.3	85.5	66.7
5	National Investment Trust Limited	7.9%	83.9	81.0	88.0	85.2
8	Faysal Asset Management Limited	6.0%	63.5	54.6	66.1	47.4
9	Alfalah GHP Investment Management Limited	5.0%	52.6	46.7	52.5	49.9
10	Atlas Asset Management Limited	4.1%	43.1	42.1	51.4	40.4
11	Al Habib Asset Management Limited	3.3%	35.3	25.4	40.4	25.5
13	Lakson Investments Limited	2.0%	20.9	21.5	19.9	21.9
12	JS Investment Limited	1.2%	12.8	20.2	21.8	23.8
14	AKD Investment Management Limited	0.7%	7.0	7.2	6.0	6.5
15	Pak Oman Asset Management	0.5%	5.6	7.1	7.9	6.6
16	AWT Investment Management Limited	0.2%	1.9	2.0	1.6	2.2
17	786 Investments Limited	0.1%	0.9	0.6	1.0	0.6
18	BMA Asset Management Company Limited	0.0%	0.0	0.5	0.0	0.4
19	First Capital Investments Limited	0.0%	0.1	0.1	0.1	0.1
Total		100%	1,056.1	973.4	1,139.4	955.3

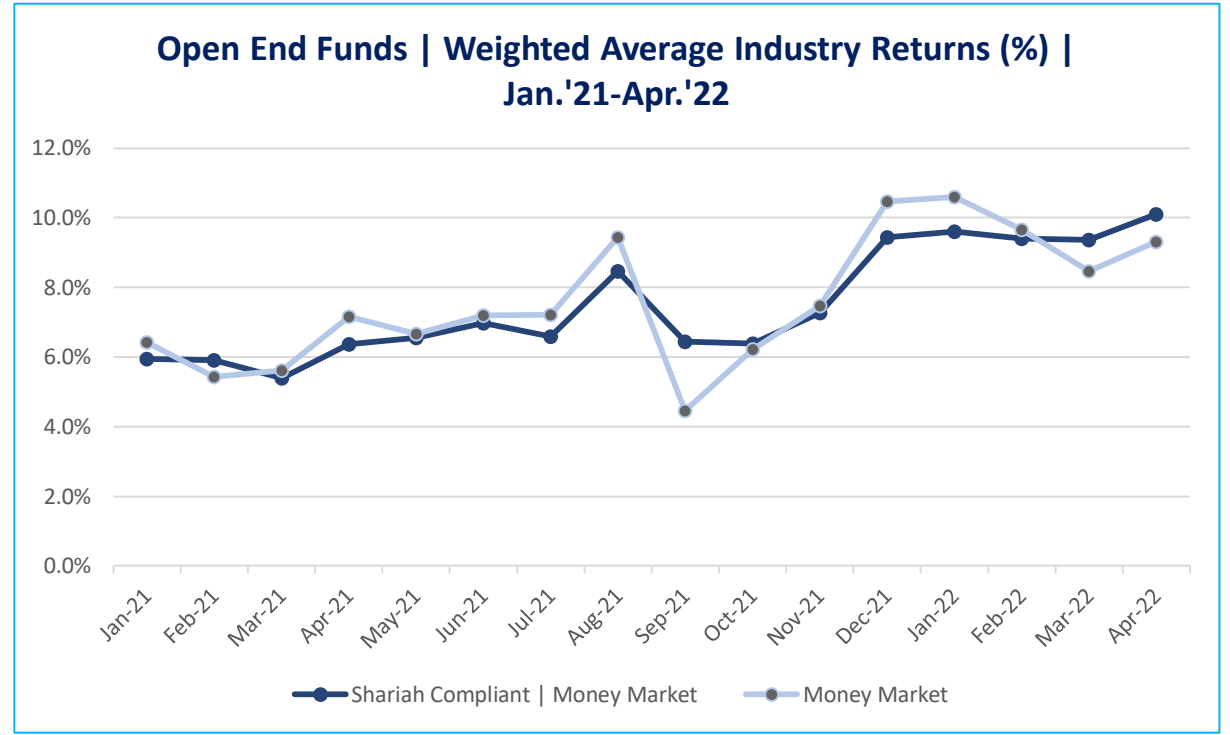
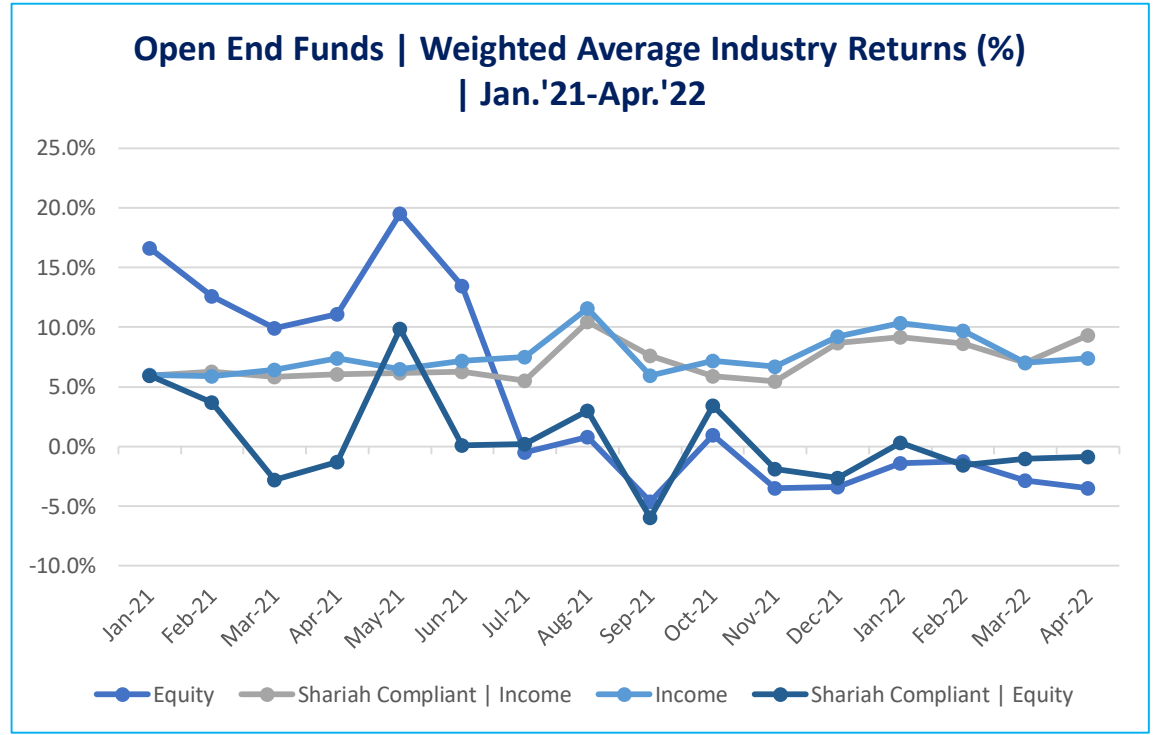
Asset Allocation & Unit Holder Patterns



Note: Both graphs are representative of Open Ended Funds

ASSET MANAGERS | LOCAL INDUSTRY

Industry Returns



- Fund returns have been extremely volatile between Jan CY21 to Apr CY22. The Shariah Compliant Equity fund witnessed the stongest volatility while money market delivered the highest average returns. Investors have preferred Shariah compliant money market and income funds in April CY22 as indicated by their positive net sales (~PKR 7,722 mln and ~PKR 5,790 mln, respectively).
- Growth in Shariah money market funds have followed in pursuit with their rising popularity on a global scale and high average returns.

Net Sales of Mutual Funds

Net Sales of Mutual Fund Categories 2022 (PKR mln)												
Categories	January			February			March			April		
	Sales	Redemptions	Net Sales	Sales	Redemptions	Net Sales	Sales	Redemptions	Net Sales	Sales	Redemptions	Net Sales
Money Market	123,841	154,183	(30,342)	100,323	173,140	(72,817)	236,709	176,685	60,024	137,926	192,734	(54,808)
Income	14,492	13,735	757	61,447	28,993	32,454	44,078	48,235	(4,157)	54,348	48,558	5,790
Equity	1,533	4,121	(2,589)	2,065	4,521	(2,456)	2,983	3,206	(223)	2,721	4,944	(2,223)
Shariah Compliant Money Market	53,914	55,770	(1,857)	53,343	38,327	15,017	73,408	74,790	(1,382)	83,763	76,041	7,722
Shariah Compliant Income	16,887	14,883	2,004	17,083	14,389	2,695	17,445	18,359	(914)	21,906	21,906	2,133
Shariah Compliant Equity	4,099	4,691	(593)	4,768	5,609	(841)	3,761	4,725	(963)	4,541	5,638	(1,097)
Other	6,957	5,528	1,433	4,930	4,680	248	27,867	16,518	11,347	13,417	24,018	(12,734)
Total	221,723	252,911	(31,187)	243,959	269,659	(25,700)	406,251	342,518	63,732	318,622	373,839	(55,217)

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.

Taxation Rules

- According to Section 62 of the Income Tax Ordinance, 2001, a “resident” tax payer other than a company, is entitled to tax credit on investment in new shares offered to public by a public company listed on a stock exchange in Pakistan.
- This tax credit is available on the lower of (a) the amount of actual Cost of Investment (b) 20% of Taxable Income for the tax year or (c) Rs. 1 million. The tax credit availed on acquisition of such shares will be need to be paid back, if such shares are disposed off within 24 months of the date of acquisition.
- Units of Mutual Funds are covered under the definition of shares as per Income Tax Ordinance, 2001.
- In case of self employed individuals, the maximum tax credit of Rs. 220,417 is available on annual taxable income of Rs. 6 million or more at an average tax rate of 22% whereas, in the case of salaries individuals, Rs. 203,571 is the maximum tax credit available on annual taxable income of Rs. 7million or more at an average tax rate of 20%).
- Rate of Withholding Tax on Dividend Income from Mutual Funds is at 15%.

CGT On Redemption

The rate of capital gains tax (CGT) for the redemption of mutual funds units is prescribed under Division VII of Part I of the First Schedule of the Ordinance. The CGT rates for FY21-22 are as follows:

Particulars	Investors appearing in the Active Tax Payers' List	Investors not appearing in the Active Tax Payers' List
Where the holding period of security is more than Four years	0.00%	0.00%
Stock Funds: For individuals, association of persons and corporates- if dividend receipts of the fund are more than capital gains	10.00%	20.00%
Stock Funds: For individuals, association of persons and corporates - if dividend receipts of the fund are less than capital gains	12.50%	25.00%
Other Funds: For Individuals	10.00%	20.00%
Other Funds: For Corporate	25.00%	50.00%

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.

- Heightened inflationary concerns and political uncertainty and uncertainty will hamper economic growth and impair investor confidence.

- Introduction of new products, such as Exchange Traded Funds.

ASSET MANAGERS | Outlook & Future Prospects

Outlook: Stable

- While FY22 started on a positive note with strong economic growth, inflation has started to pick up drastically in the third quarter with the inflation rate crossing ~13.76% in May CY22 due to removal of fuel subsidies, depreciation of the PKR relative to the USD, heightened demand pressures overheating the economy, and global supply chain issues increasing the cost of imports.
- As a result the SBP had decided to increase the policy rate for the first time in four months in April CY22 to 12.25%. Moving forward, the policy rate was revised to May 13.75% on May 24 CY22 with further increases likely. In this highly inflationary environment coupled with global supply chain issues, the cost of doing business has increased drastically and will impact industry profitability. This will serve to impair equity open-end fund returns and may lead to fund withdrawals moving forward.
- The Large Scale Manufacturing Industries output increasing ~7.40% YoY during the first nine months of FY22. The sectors which have contributed to this growth are automobiles, food & beverages and tobacco, pharmaceuticals and iron and steel products. The automobiles sector displayed the highest positive growth. Moving forward this will change owing to tough monetary policy measures and a depreciated PKR increasing operating costs for businesses (PKR/USD: ~197.60 at June 4, 2022).
- The increase in KIBOR to 10.39% in 11MFY22 from 7.43% in FY21 is also indicative of heightened cost of borrowing which will further drive down industry profitability due to higher finance costs.
- The uncertain political and monetary policy environment coupled with a depreciating PKR against the USD has resulted in a decline in KSE-100 index returns which has generated a return of only ~5% in the 11MFY22. The return in FY21 was ~25%. In May CY22 the MoM decline in return was ~1.69%.
- Prior to the start of CY22, there had been significant growth in the mutual funds market in recent months as total industry AUMs (including fund of funds) had risen at a quick pace and reached PKR~1,139.4bln in Dec-2021 from PKR~955.3bln in Dec-2020. In April 2022, total AUMs fell to PKR~1,078 bln. In addition, overall funds have experienced monthly net redemptions from October 2021 to April 2022 (except for December 2021 and April 2022).
- This decline could be due to money which flowed in during CY20 is now flowing out to fund development projects. Moving forward, it is probable for AUMs to erode value in these uncertain economic times.
- With great uncertainty lying ahead in terms of global supply chain factors as well as the local macroeconomic and political environment, the future of the asset manager industry's performance will be volatile and Shariah compliant money market funds will continue to be the preferred vehicles of investments mainly due to their relatively safe basket of securities compared to other funds.

- The International Investment Funds Association (IIFA)
- Association of Mutual Funds in India
- Pakistan Bureau of Statistics (PBS)
- Pakistan Stock Exchange (PSX)
- KSE Stocks
- State Bank of Pakistan (SBP)
- Federal Board of Revenue (FBR)
- Mutual Funds Association of Pakistan (MUFAP)
- Securities & Exchange Commission of Pakistan (SECP)
- Bloomberg
- National Clearing Company of Pakistan Limited (NCCPL)
- PACRA Database

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