



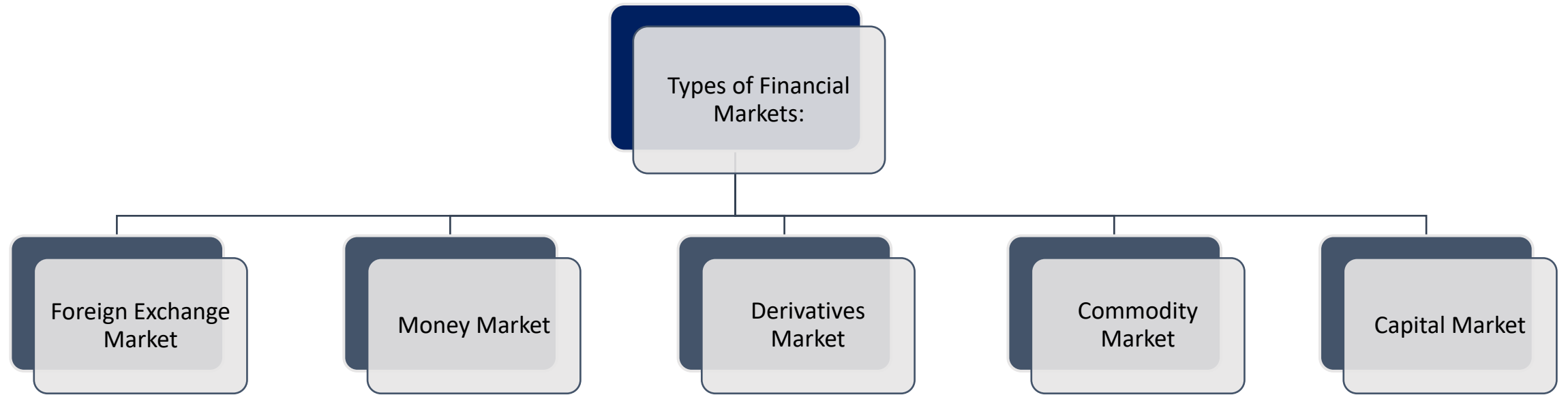
Asset Managers

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.

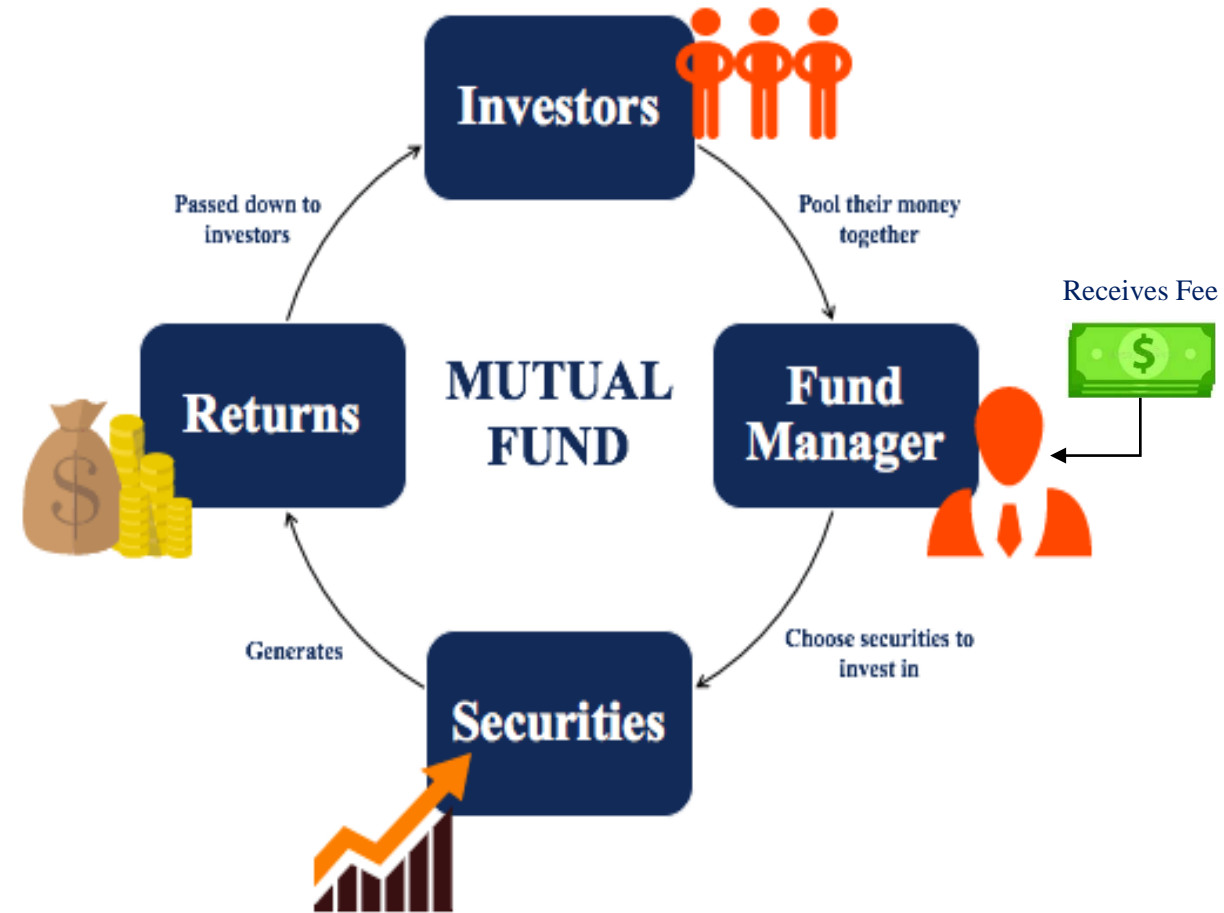
Capital markets refer to the places where savings and investments are moved between suppliers of capital and those who are in need of capital. The most common capital markets are the stock market and the bond market.

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.

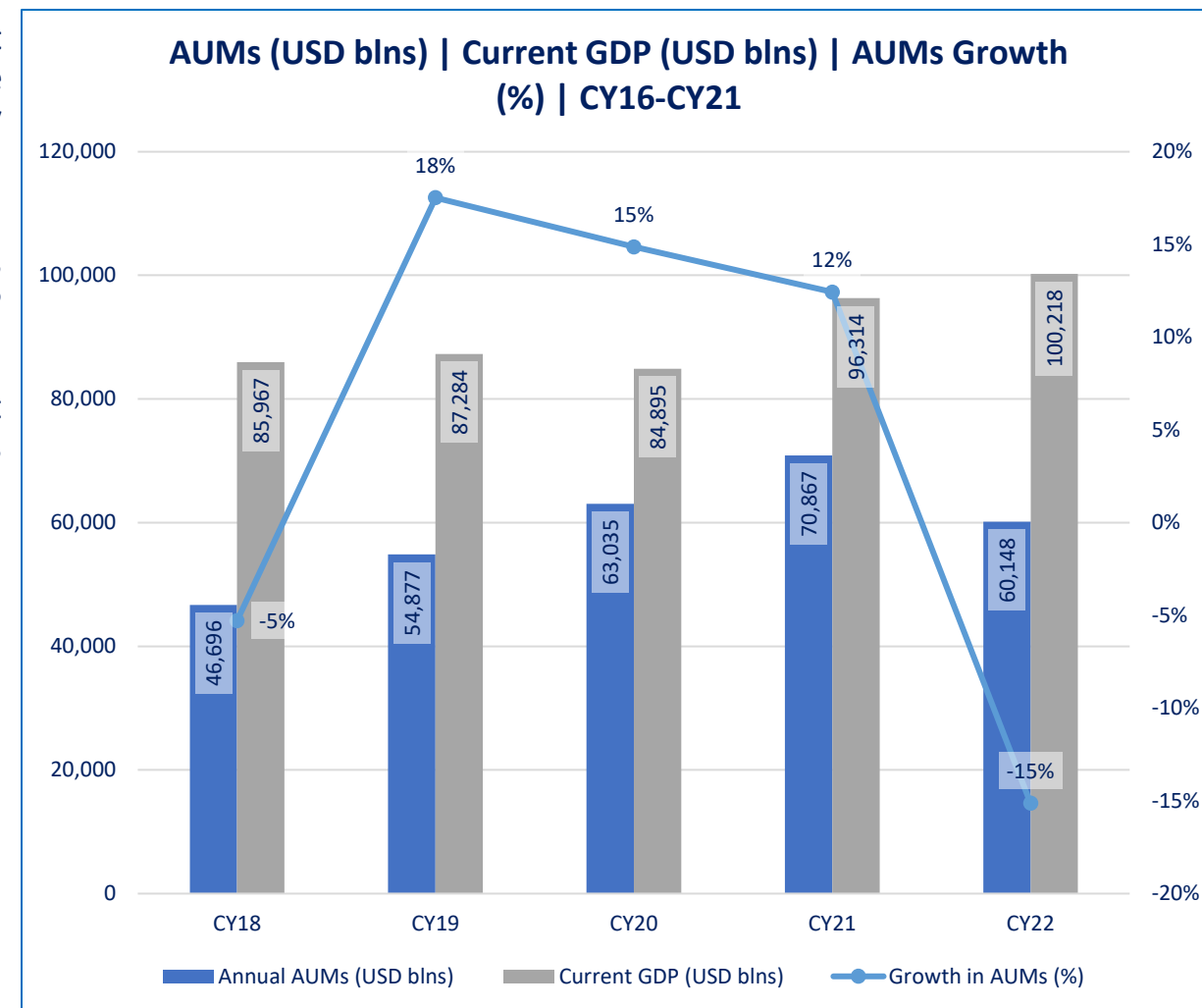
Mutual Funds

- 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.

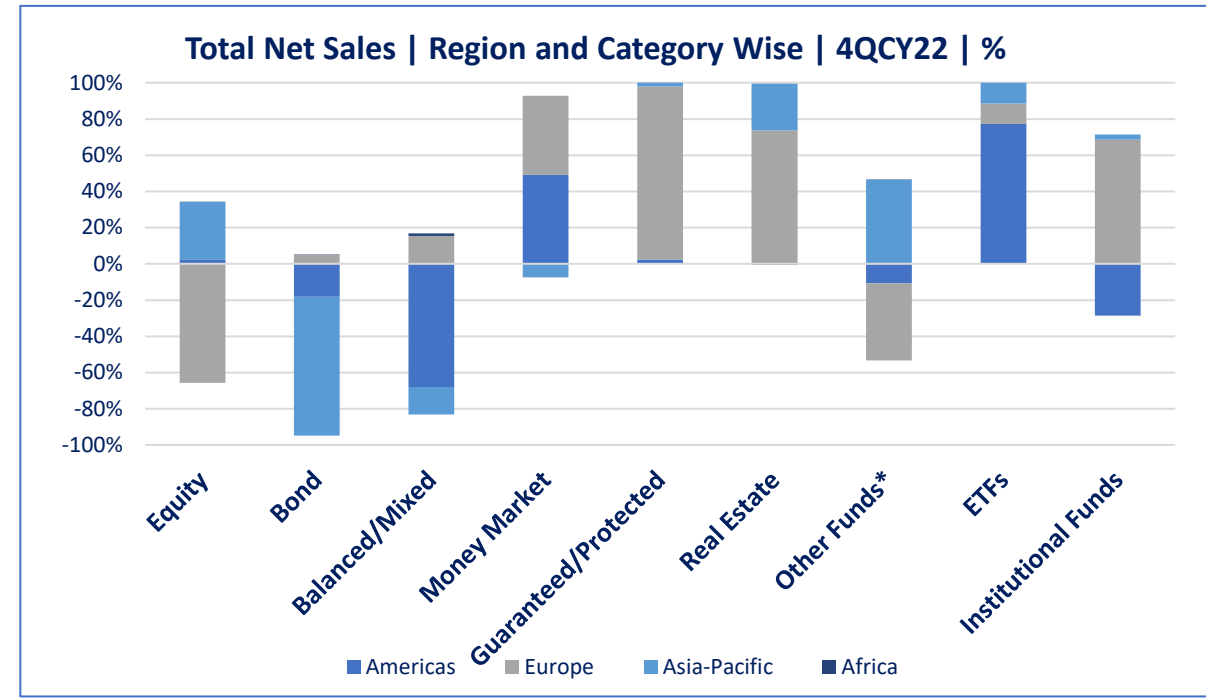
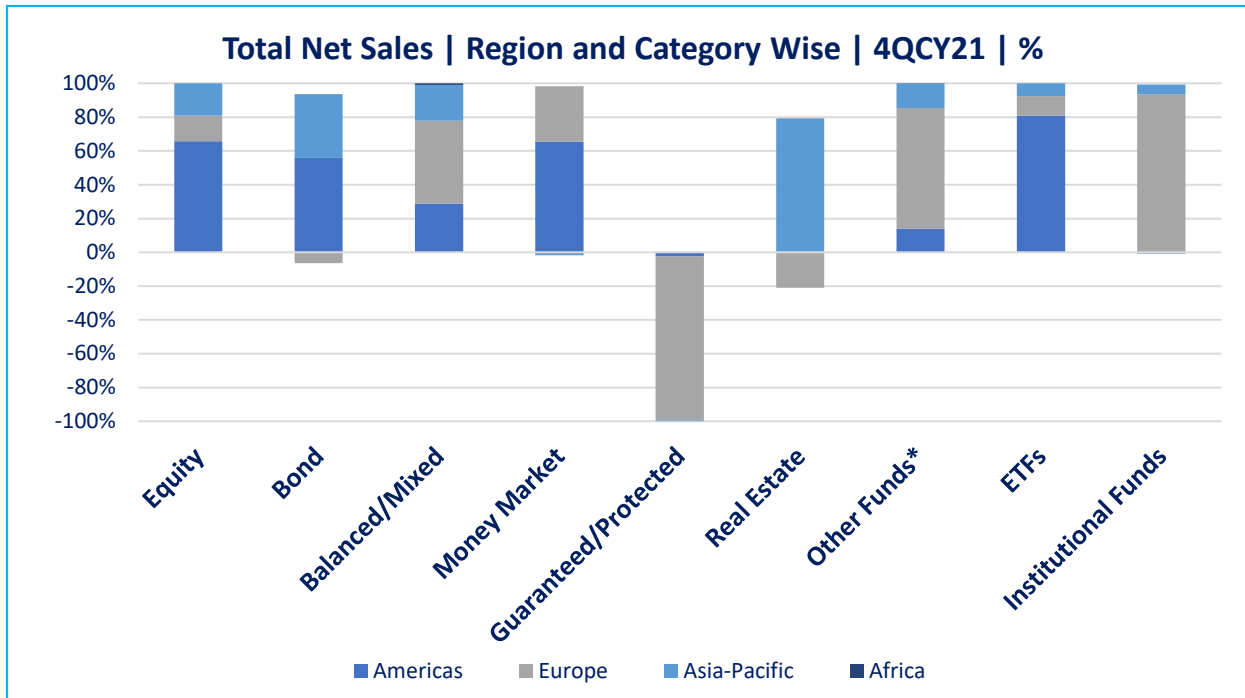


World AUMs

- CY22 began with COVID-era supply chain disruption in effect, while the start of a long drawn war between Russia and Ukraine further catalyzed the current global economic theme; one of high inflation, hawkish monetary stances and slow economic growth.
- IMF in it's April'23 world economic outlook has revised global inflation outlook to ~7.0% for CY23 from ~4.8% last year, while monetary policies around the globe remain hawkish, resultantly the expected global GDP growth for CY23 has been revised down to ~2.8% from ~3.6% last year.
- Global Open-End Fund Assets decreased by ~15% YoY in CY22 clocking in at USD~60.2trn. Fresh investments remained subdued at USD~26.9bln, less than ~1% of previous years investment volumes. As high interest rates and yields along with subdued equity performance eroded investor confidence.
- Based on the type of fund, the highest concentration of AUMs remained in Equity Funds, and based on regions, the highest portion of global open-end fund assets vests in Americas (~53% vs. Europe: ~32% and Asia-Pacific: ~15%).
- In terms of fund flows, USD~152bln flowed out of long-term funds while the USD~180bln flowed into money market funds. Bond funds faced the highest withdrawals of USD~261bln due to steep discounts on mounting yields.
- ETF sales declined by ~33.0% YoY in CY22 while institutional funds sales declined by ~48.3% YoY.



World Open-End Funds | Distribution of Investments



- ETFs recorded the highest level of inflows in 4QCY22 in the Americas, but declined by ~26% from the SPYL and comprising ~77% of transaction activity in CY22. However, the most dramatic decline in sales volume was of Balanced/Mixed funds which declined by ~212% in 4QCY22 from 4QCY21.
- In Europe the net sales activity for Money Market funds was the highest, increasing by ~66%, while Equity Fund sales declined by a massive ~332% from the SPYL, Balanced/Mixed fund sales declined by ~85% from the SPYL while sales of ETFs and Intuitional Funds declined by ~24% and ~70% compared to SPYL respectively.
- In Asia-Pacific net sales of ETFs grew by ~16% in CY22 compared to SPYL, highest sales were observed in Equity funds, however they were ~10% lower compared to SPYL. While investments in Bond, Balanced/Mixed, Real Estate and Intuitional Funds declined by ~206%, ~134%, ~13% and ~78% compared to SPYL respectively.

Region Wise Asset Allocation & Number of Funds

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

Region	CY18	CY19	CY20	CY21	CY22
Americas	50.6%	52.2%	51.3%	52.8%	52.9%
Europe	35.3%	34.3%	34.5%	32.8%	31.7%
Asia & Pacific	13.8%	13.2%	13.9%	14.1%	15.1%
Africa	0.3%	0.3%	0.3%	0.3%	0.3%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

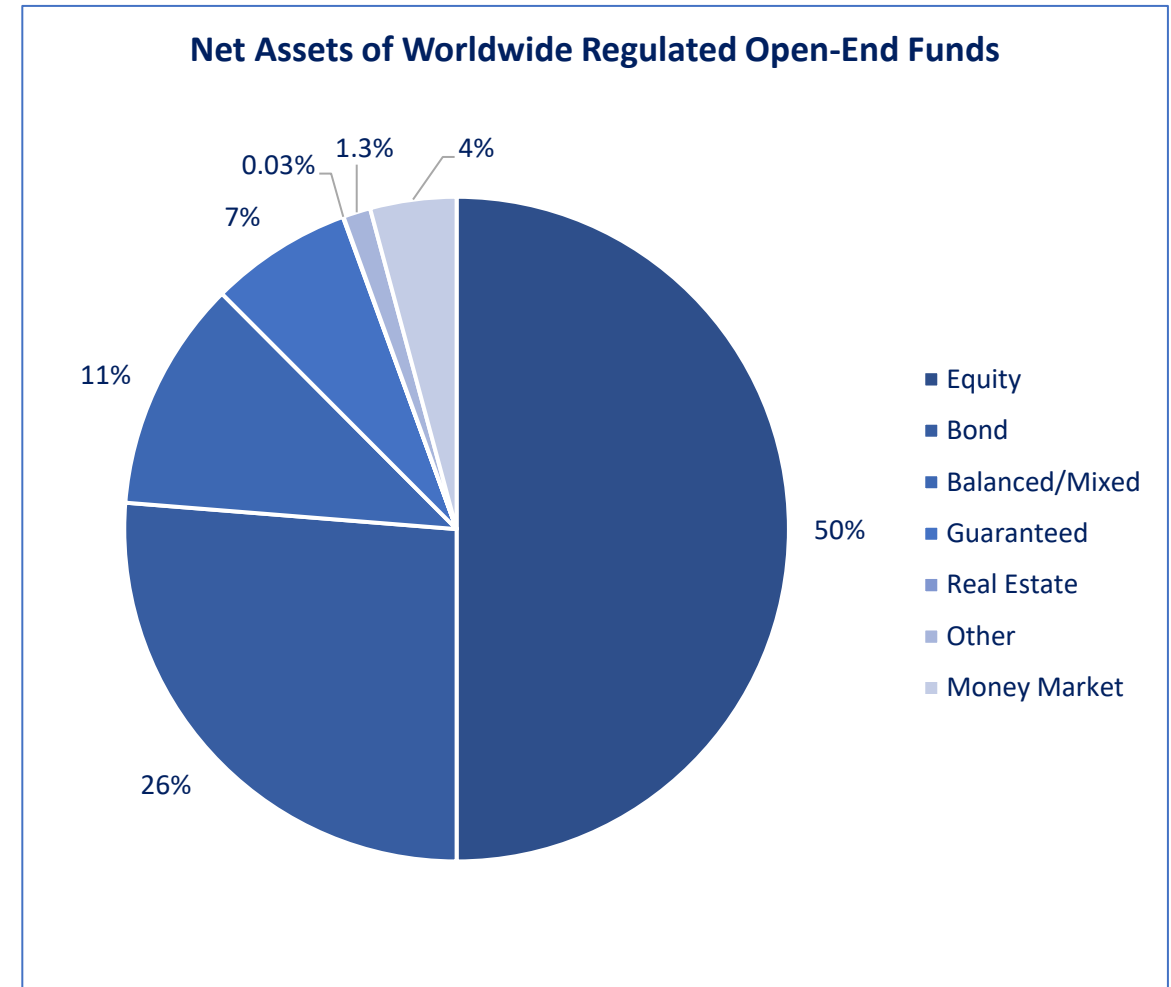
Worldwide Open-End Funds: Number (%)

Region	CY18	CY19	CY20	CY21	CY22
Americas	23.4%	23.4%	24.1%	25.1%	24.1%
Europe	47.3%	46.5%	45.9%	44.8%	47.9%
Asia & Pacific	27.9%	28.8%	28.6%	28.9%	32.1%
Africa	1.3%	1.3%	1.3%	1.3%	1.4%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

- By 4QCY22 in Americas, AUMs stood at USD~31.8bln, down ~15.1% compared to SPLY and held ~52.9% share in the global AUMs; while ~24.1% of total Open-End Funds were present there. Equity and Bond funds held the highest market share as their shares stood at ~54.0% and ~20.9% in the AUMs of Americas respectively.
- While AUMs in Europe stood at USD~19.1bln, down ~17.8% compared to SPLY, AUMs in Europe held a ~31.7% global share with ~47.9% of the Open Ended funds operating there. European market had a lower appetite for Equity funds holding a ~32.2% share in its total AUMs. While it held larger portions of Balanced/Mixed funds at ~18.8% share in total AUMs, compared to ~8.0% in the Americas.
- The Asia & Pacific market held AUMs at USD~9.1bln, down ~9.0% compared to SPLY and held a ~15.1% share in the global AUMs; ~32.1% of Open Ended funds operate there. Equity and Money Market funds held the largest shares of ~39.4% and ~23.0% in its total AUMs respectively; while Bond funds held a ~10.4% share in the total AUM mix.

Asset Allocation by Fund Type

- Global Open-End Fund Market is dominated by long term investments which comprise ~88% of the open-end fund universe compared to money market funds which comprises the remainder ~12%.
- Equity funds account for ~50% of the global open-end fund assets, followed by bonds (~26%) and money market funds (~11%).
- During CY22, global net sales of the open-end fund market was recorded at USD~26bln (USD~3.9trn in CY21), down ~99% YoY basis.
- In terms of asset allocation, the greatest increase in global open-end funds assets was witnessed in real estate funds increasing by ~0.22% YoY in CY22. These were followed by an YoY increase of ~0.18% in money market funds in CY22.



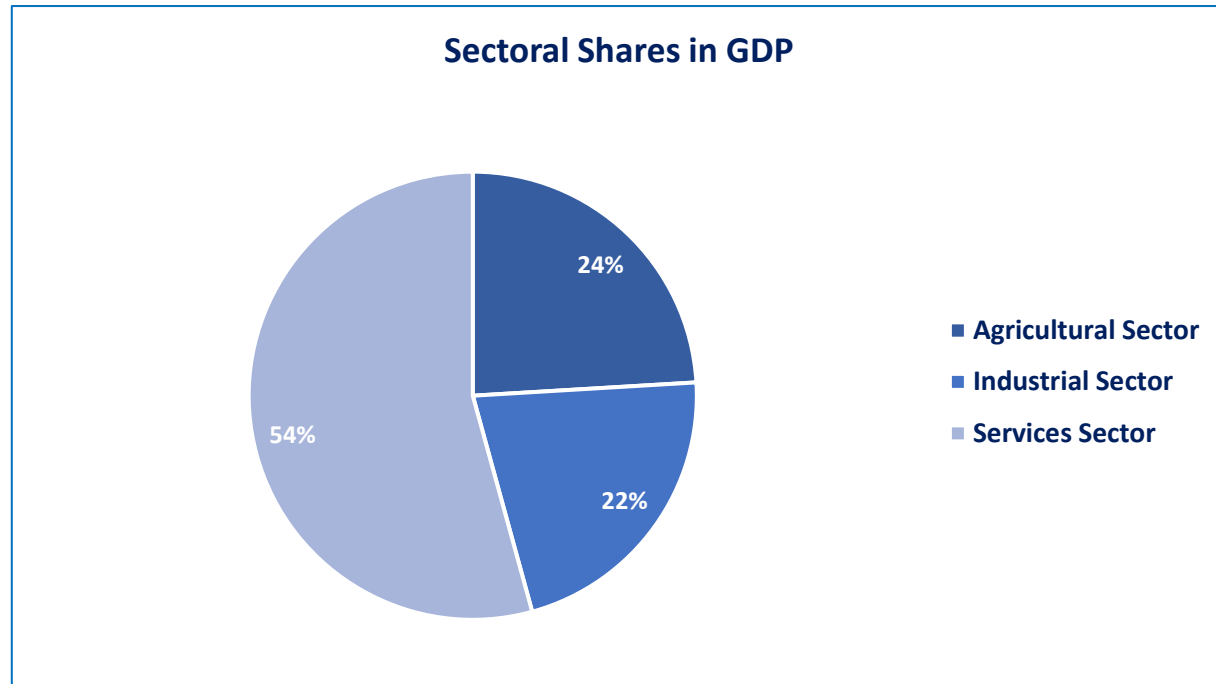
Regional Market | Asia & Pacific AUMs

CY22									
USD bln	China	Australia	Japan	Korea	India	Taiwan	New Zealand	Pakistan	Philippines
AUMs	3,266	2,429	2,040	624	476	153	101	7	5
GDP	18,100	1,702	4,234	1,665	3,386	762	242	376	404
% of AUMs	5.43%	4.04%	3.39%	1.04%	0.79%	0.25%	0.17%	0.01%	0.01%

- Asia & Pacific accounts for ~15% of the Global Open-End Fund Assets and ~32% of the Number of Global Open-End Funds (CY22).
- In terms of GDP, Asia & Pacific makes up ~31% 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~476bln, ~14% of its GDP).
- Pakistan has the second lowest open-end fund asset base among its regional players in Asia & Pacific, amounting to USD~7bln and ~2% of its GDP.

GDP Break Up

- Pakistan’s FY23 GDP (nominal) is estimated at PKR~79,336bln, compared to PKR~63,271bln in FY22. With GDP deflator based inflation expected to clock in at ~25.0% (FY22: ~14.1%), GDP (real) is expected to grow at ~0.3%
- 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.



FY23 Sector Wise GDP Break-Up (%)*	
Crops	9.32
Livestock	14.04
Forestry	0.41
Fishing	0.28
Total Agricultural Sector	24.05
Mining and Quarrying	2.18
Large Scale Manufacturing	11.00
Small Scale Manufacturing	2.13
Slaughtering	1.43
Electricity Generation + Distribution & Gas Distribution	2.08
Construction	2.85
Total Industrial Sector	21.67
Wholesale & Retail Trade	20.51
Transport, Storage & Communication	4.95
Finance & Insurance	4.46
Housing Services	4.25
General Government Services	4.32
Other Private Services	15.78
Total Services Sector	54.27

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

Macro Economic Indicators

	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	11MFY22	11MFY23
Average Inflation Rate (CPI)	4.5%	2.9%	4.2%	3.9%	7.3%	10.7%	8.9%	12.1%	11.3%	29.0%
Average KIBOR	8.9%	6.5%	6.1%	6.4%	10.4%	12.0%	7.4%	10.8%	10.4%	18.0%
Monetary Policy Rate (MPR)	8.8%	6.0%	5.8%	6.0%	9.7%	11.8%	7.0%	9.7%	9.1%	17.0%
PKRV	8.7%	6.3%	6.0%	6.3%	10.2%	11.8%	7.3%	10.7%	10.3%	17.8%
Average Exchange Rate (PKR/USD)	101.5	104.4	104.8	110.1	136.4	158.4	160.5	191.9	178.6	244.8
(USD mln)	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	10MFY22	10MFY23
Current Account Balance	-2,815	-4,961	-12,270	-19,195	-13,434	-4,449	-2,820	-17,481	-13,814	-3,258
Exports	29,962	27,428	27,918	30,619	30,223	27,973	31,584	39,595	26,858	23,211
Imports	50,205	50,120	58,577	67,948	62,805	52,398	62,734	84,485	58,705	45,202
Trade Balance	-20,243	-22,692	-30,659	-37,329	-32,582	-24,425	-31,150	-44,890	-31,847	-21,991
Foreign Exchange Reserve	18,699	23,099	21,403	16,384	14,482	18,886	24,398	15,450	16,406	9,457

Macro Economic Indicators | Monthly

	Jul-22	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23	Apr-23
Average Inflation Rate (CPI)	24.9%	27.3%	23.2%	26.6%	23.8%	24.5%	27.6%	31.5%	35.4%	36.4%
Average KIBOR	15.7%	16.0%	16.1%	15.8%	16.0%	17.0%	17.4%	18.7%	21.2%	22.1%
Monetary Policy Rate (MPR)	15.0%	15.0%	15.0%	15.0%	15.5%	16.0%	17.0%	17.0%	20.0%	20.9%
PKRV	15.4%	15.8%	15.8%	15.6%	15.9%	16.9%	17.3%	18.5%	20.9%	21.8%
Average Exchange Rate (PKR/USD)	219.4	220.9	230.5	220.6	222.3	225.0	234.8	267.0	281.5	285.0
(USD mln)	Jul-22	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23	Apr-23
Current Account Balance	-1,261	-774	-411	-827	-142	-345	-230	-36	750	18
Exports	2,217	2,734	2,440	2,282	2,249	2,310	2,219	2,210	2,438	2,112
Imports	5,517	5,958	4,905	4,654	4,343	4,265	3,929	3,933	3,991	3,707
Trade Balance	-3,300	-3,224	-2,465	-2,372	-2,094	-1,955	-1,710	-1,723	-1,553	-1,595
Foreign Exchange Reserve*	14,024	14,347	13,310	14,278	13,027	11,423	8,742	9,268	9,164	9,457

T-Bills & PIBs

CY22 T-Bills Auction	Average Yield		
Total Realized Amount (PKR bln)	3M	6M	12M
19,807	14.43%	14.56%	14.64%

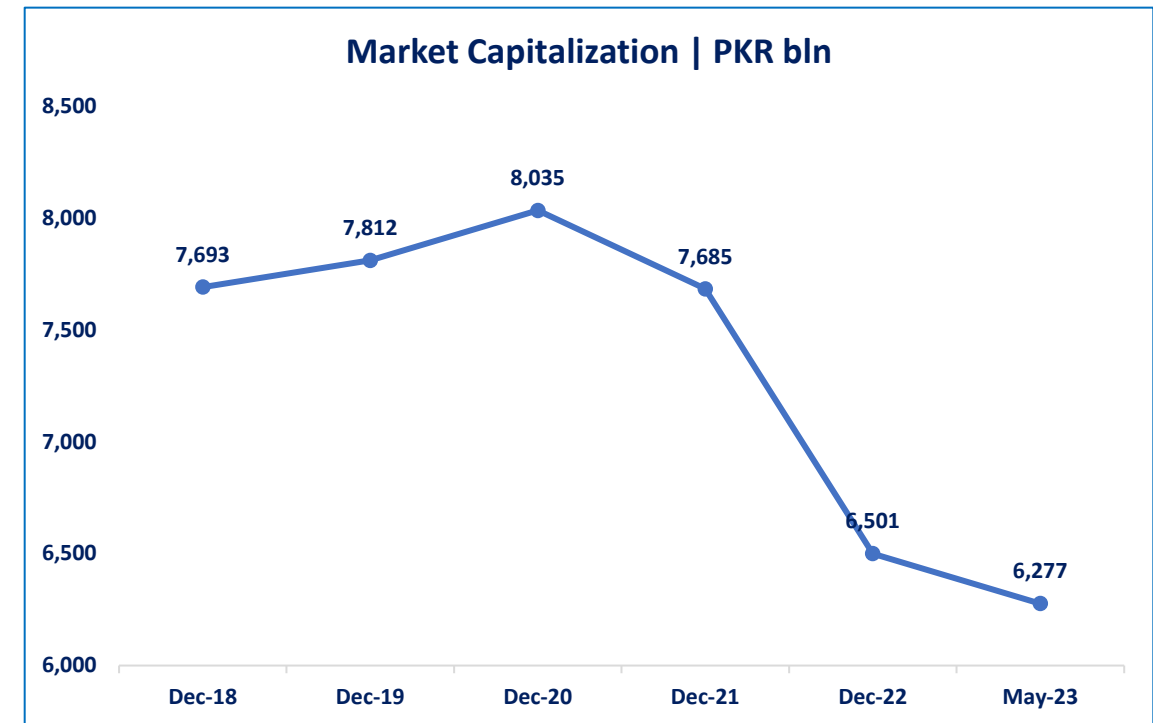
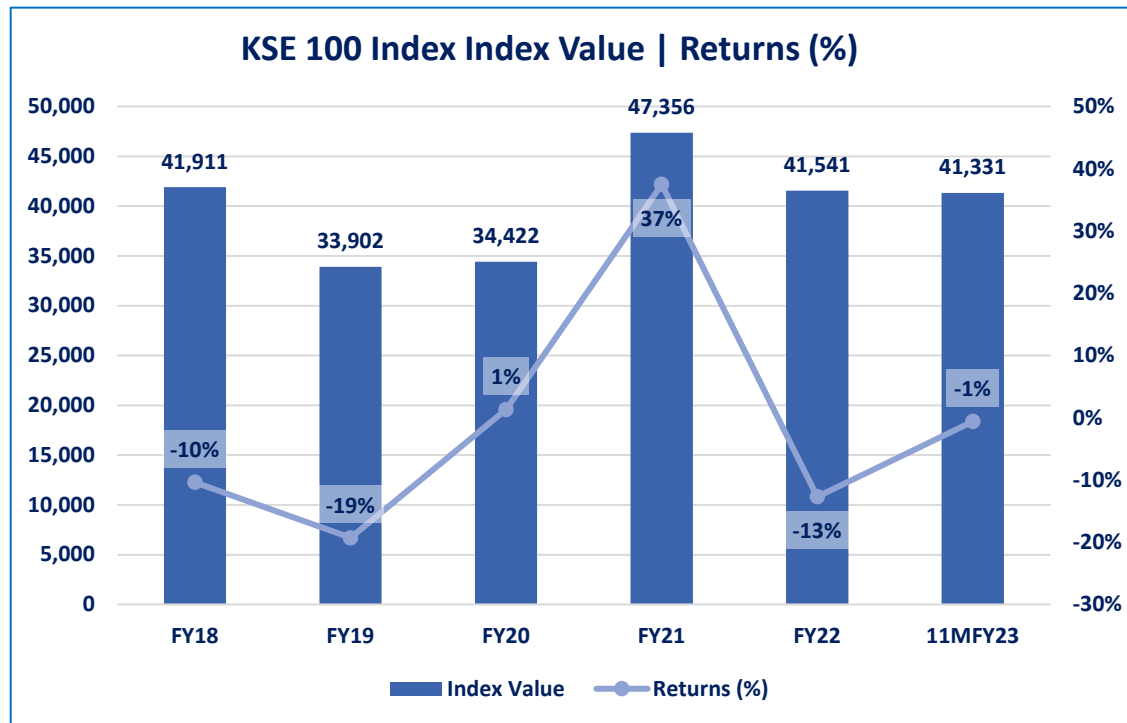
1QCY23 T-Bills Auction	Average Yield		
Total Realized Amount (PKR bln)	3M	6M	12M
5,009	18.98%	19.48%	20.05%

CY21 PIBs Auction			
Tenure	Amount Accepted (PKR bln)	Coupon Rate	Weighted Average Yield
3 Year	486	8.25%	9.55%
5 Year	1120	8.25%	9.75%
10 Year	480	8.50%	10.30%
15 Year	-	10.50%	-
20 Year	-	11.00%	-

1QCY22 PIBs Auction			
Tenure	Amount Accepted (PKR bln)	Coupon Rate	Weighted Average Yield
3 Year	26	10.00%	18.05%
5 Year	0.35	10.50%	13.47%
10 Year	-	11.00%	-
15 Year	-	10.50%	-
20 Year	-	11.00%	-

KSE-100 | Performance

KSE 100 Index	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	11MFY23
Index Value	29,653	34,399	37,784	46,565	41,911	33,902	34,422	47,356	41,541	41,331
Returns (%)	41%	16%	10%	23%	-10%	-19%	1%	37%	-13%	-1%



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~1.5trln mark in Dec'22, however there was a drop of ~2% by April'23.

Type of Fund (PKR bln) As at	Dec'18	Dec'19	Dec'20	Dec'21	Dec'22	Apr'23
Open-end	517	632	914	1,089	1,518	1,486
Voluntary Pension	26	30	35	39	43	46
AUMs	543	662	949	1,128	1,561	1,532

Type of Fund (PKR bln) As at	Jun'17	Jun'18	Jun'19	Jun'20	Jun'21	Jun'22
Open-end	539	528	487	730	1,014	1,210
Voluntary Pension	25	26	26	31	38	41
AUMs	564	554	513	761	1,052	1,251

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.

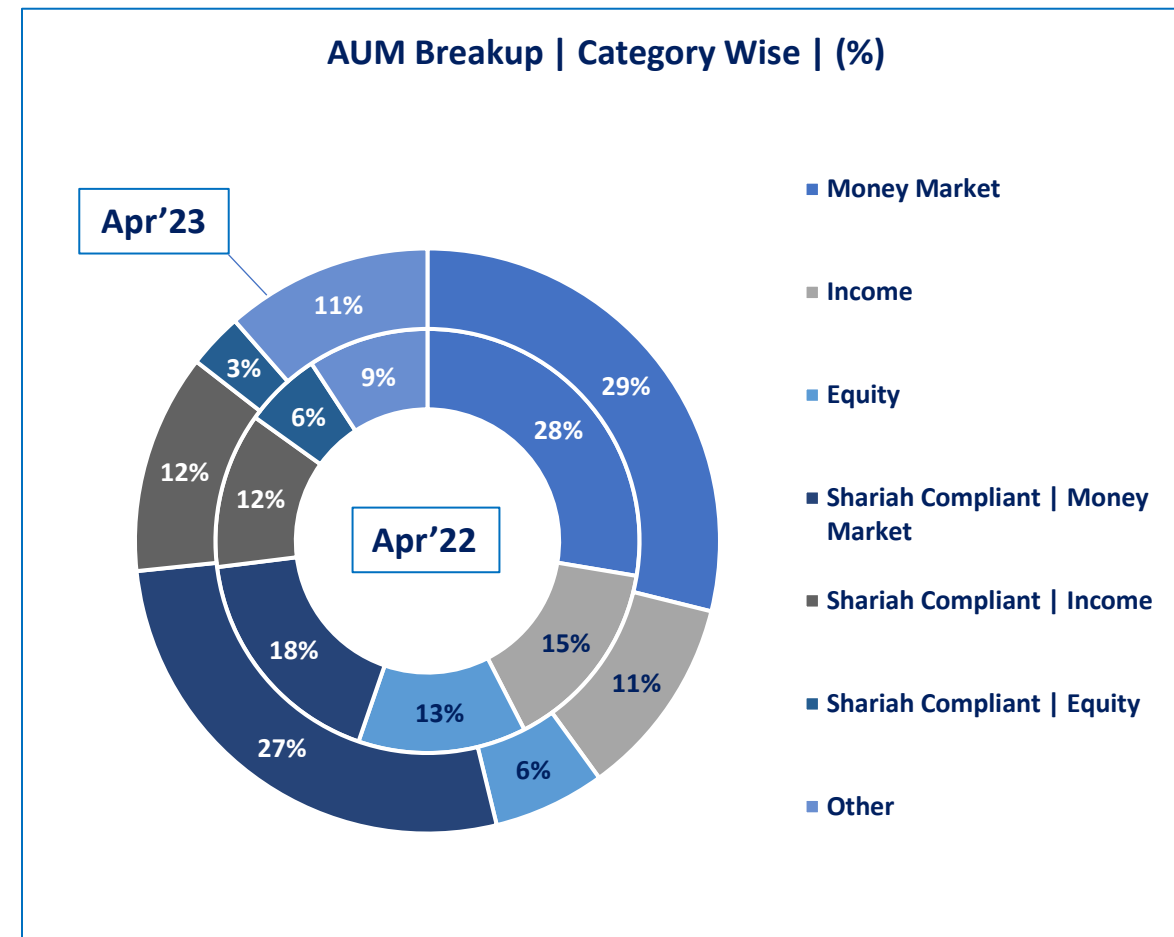
Mutual Funds | Categories

- **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 operating in Pakistan categorized as per PACRA's rating.

Categories	Jun'20		Dec'20		Jun'21		Dec'21		Jun'22		Dec'22	
	Count	%	Count	%	Count	%	Count	%	Count	%	Count	%
Equity	27	11%	27	11%	27	11%	27	10%	26	8%	26	8%
Islamic Equity	19	8%	19	7%	19	7%	19	7%	20	6%	20	6%
Asset Allocation	14	2%	14	5%	14	5%	14	5%	13	4%	13	4%
Islamic Asset Allocation	11	6%	12	5%	12	6%	12	5%	12	4%	12	4%
Balanced	4	2%	4	2%	4	2%	4	2%	5	2%	5	2%
Others	168	69%	179	70%	179	70%	186	71%	244	76%	244	76%
Total	243	100%	255	100%	255	100%	262	100%	320	100%	320	100%

Category Wise AUM Break Up

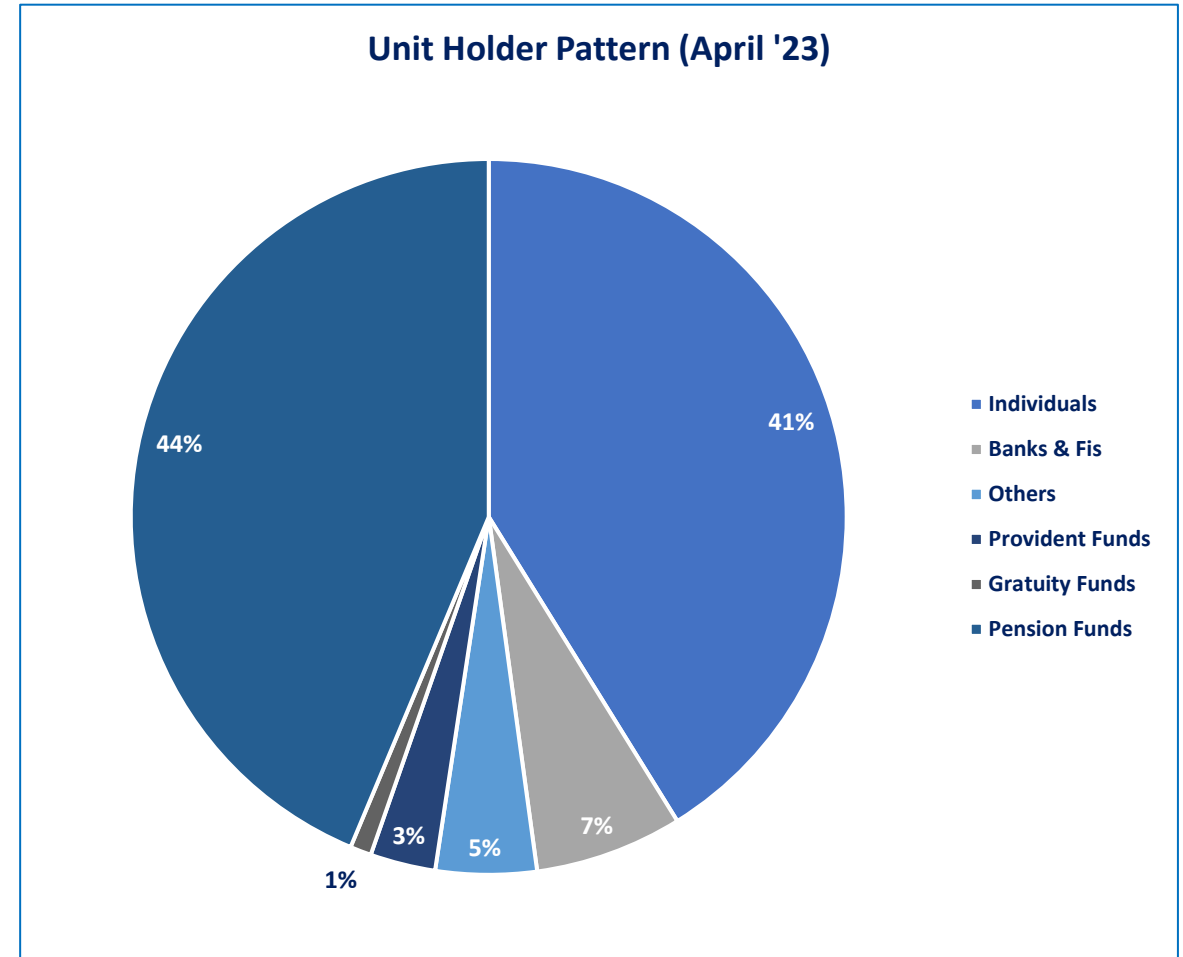
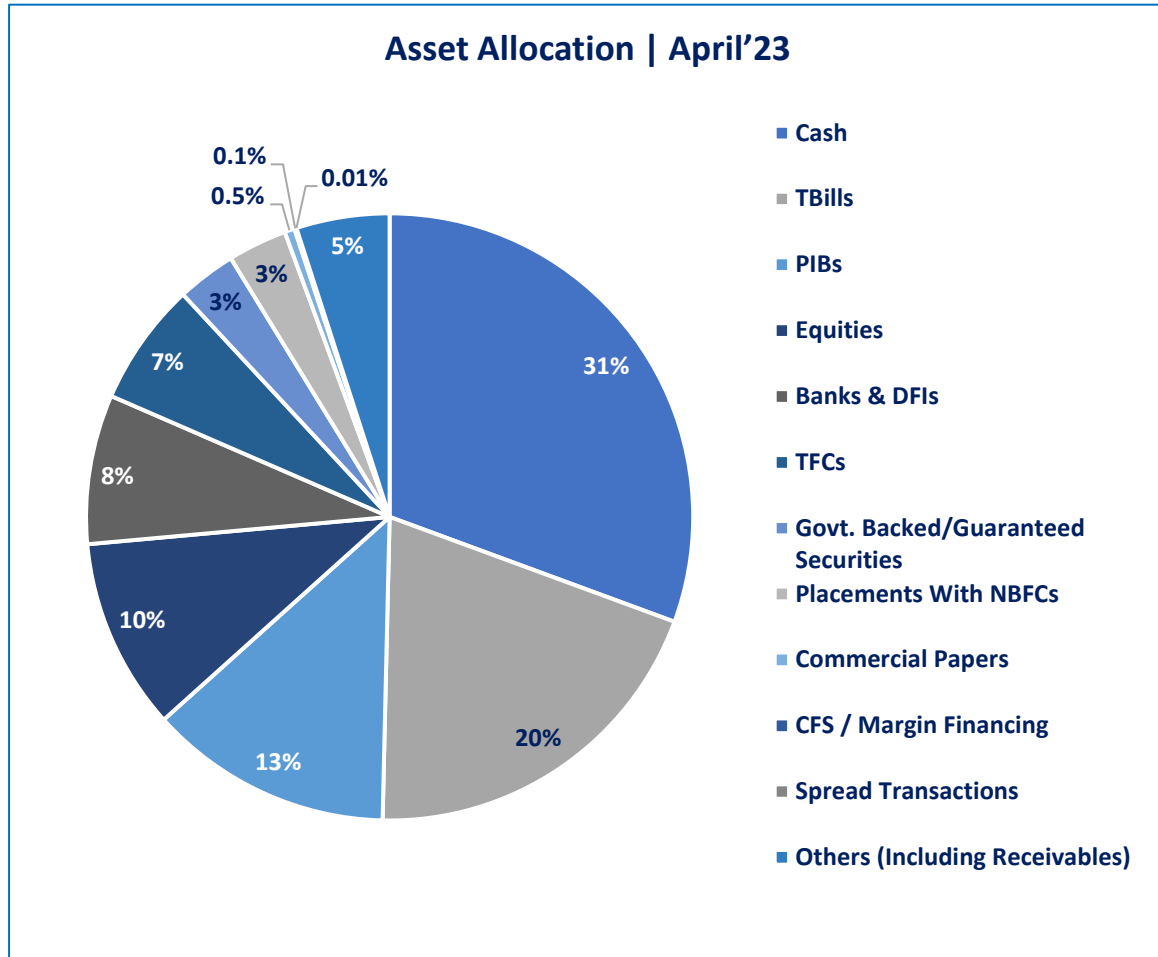
Assets Under Management Break Up PKR bln		
Category	Apr'22	Apr'23
Money Market	291	429
Shariah Compliant Money Market	187	404
Equity	135	92
Income	156	166
Shariah Compliant Income	125	181
Shariah Compliant Equity	62	45
Other	97	170
Total AUMs	1,040	1,486



Market Share

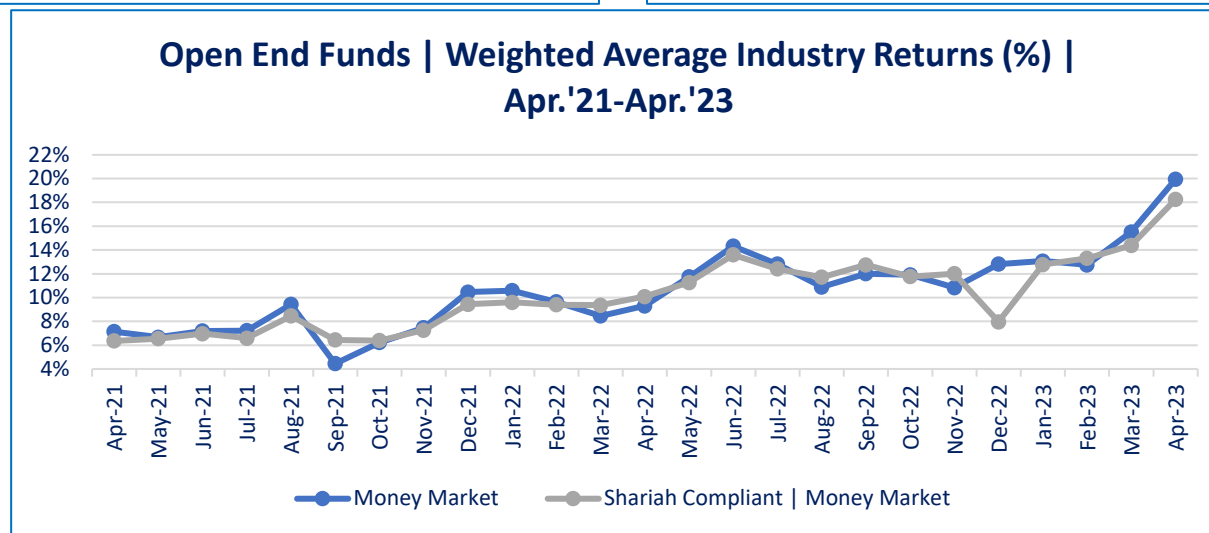
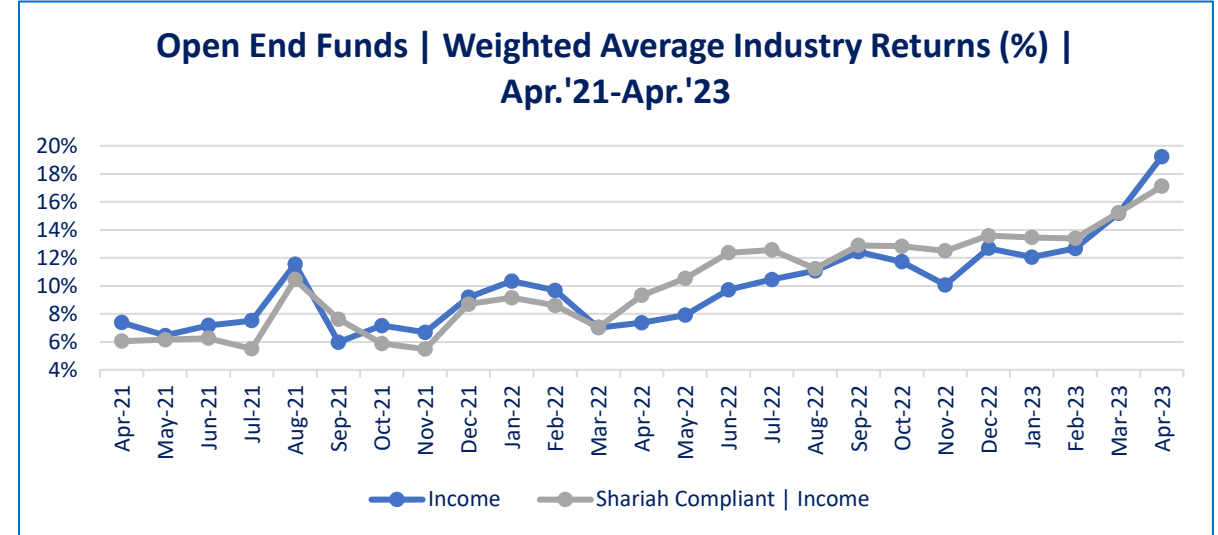
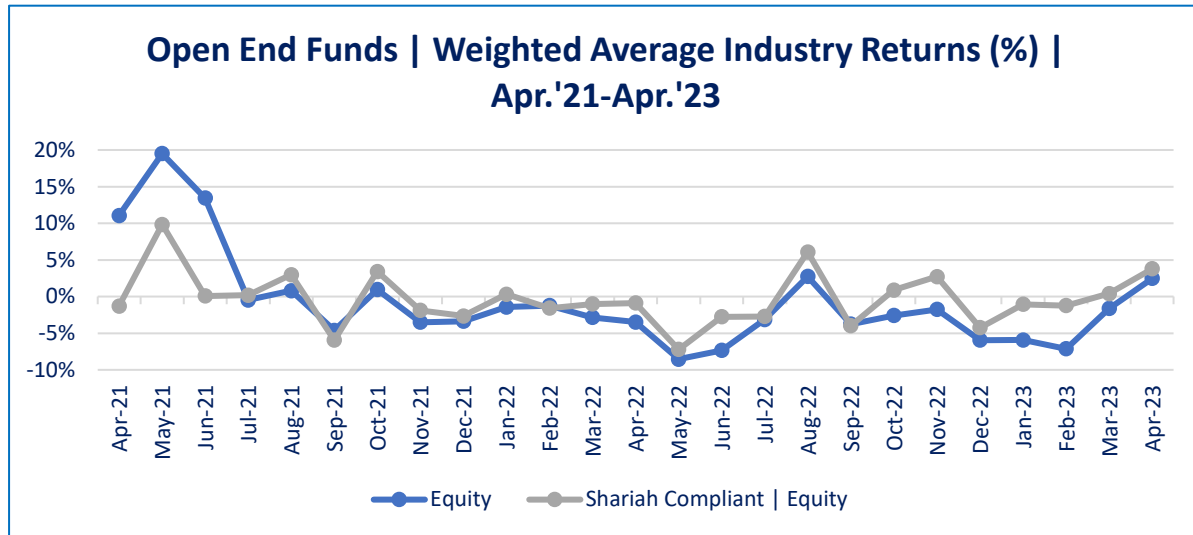
Mutual Funds Industry - Assets Under Management (Open End & VPS, excluding Fund of Funds) - PKR bln						
S. No	Asset Management Company	Apr-23		Apr-22	Dec-22	Dec-21
		Market Share	AUMs	AUMs	AUMs	AUMs
1	Al-Meezan Investment Management Limited	18.1%	278.1	174.4	264.6	169.2
2	NBP Fund Management Limited	15.3%	234.4	170.3	213.0	168.2
3	MCB-Arif Habib Savings and Investments Limited	10.7%	163.3	90.9	158.2	109.8
4	HBL Asset Management Limited	10.4%	160.1	110.3	156.0	94.1
5	UBL Fund Managers Limited	9.4%	143.7	96.4	157.1	115.8
6	Faysal Asset Management Limited	7.1%	108.8	63.5	103.9	66.1
7	ABL Asset Management Limited	6.0%	91.6	89.9	126.9	85.5
8	National Investment Trust Limited	5.4%	82.9	83.9	88.2	88.0
9	Alfalah GHP Investment Management Limited	4.9%	75.7	52.6	75.1	52.5
10	Al Habib Asset Management Limited	3.6%	55.1	35.3	74.6	40.4
11	Atlas Asset Management Limited	3.2%	49.2	43.1	49.0	51.4
12	JS Investment Limited	2.4%	37.5	12.8	43.1	21.8
13	Lakson Investments Limited	1.5%	23.1	20.9	26.4	19.9
14	Pak Oman Asset Management	0.5%	7.8	5.6	9.3	7.9
15	Pak-Qatar Asset Management Company Limited	0.5%	7.3	-	5.4	-
16	AKD Investment Management Limited	0.4%	6.7	7.0	6.4	6.0
17	AWT Investment Management Limited	0.4%	5.8	1.9	3.9	1.6
18	786 Investments Limited	0.1%	1.1	0.9	0.6	1.0
19	First Capital Investments Limited	0.01%	0.1	0.1	0.1	0.1
Total		1.00	1,532.14	1,059.80	1,561.71	1,099.30

Asset Allocation & Unit Holder Patterns



Note: Both graphs are representative of Open Ended Funds

Industry Returns



Note: The data is representative of Open Ended Funds

Net Sales of Mutual Funds

Net Sales of Mutual Fund Categories 2023 (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	208,263	279,896	(71,633)	145,500	180,632	(35,132)	206,900	176,291	30,609	149,466	158,819	(9,353)
Income	57,575	71,760	(14,185)	75,205	71,755	3,449	34,410	35,977	(1,567)	35,748	33,447	2,301
Equity	2,353	8,242	(5,890)	661	2,953	(2,292)	2,065	2,176	(111)	671	2,540	(1,869)
Shariah Compliant Money Market	159,252	162,222	(2,970)	164,234	86,755	77,479	111,656	152,691	(41,035)	95,110	107,583	(12,473)
Shariah Compliant Income	44,006	31,848	12,158	36,774	36,796	(22)	33,839	40,114	(6,275)	36,382	30,010	6,373
Shariah Compliant Equity	3,658	6,910	(3,252)	3,637	5,501	(1,864)	2,281	4,129	(1,848)	1,473	2,411	(938)
Other	27,115	32,316	(5,199)	21,347	23,186	(1,837)	73,626	27,813	45,813	34,282	31,065	3,216
Total	502,222	593,194	(90,971)	447,358	407,578	39,781	464,777	439,191	25,586	353,132	365,875	(12,743)

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%.

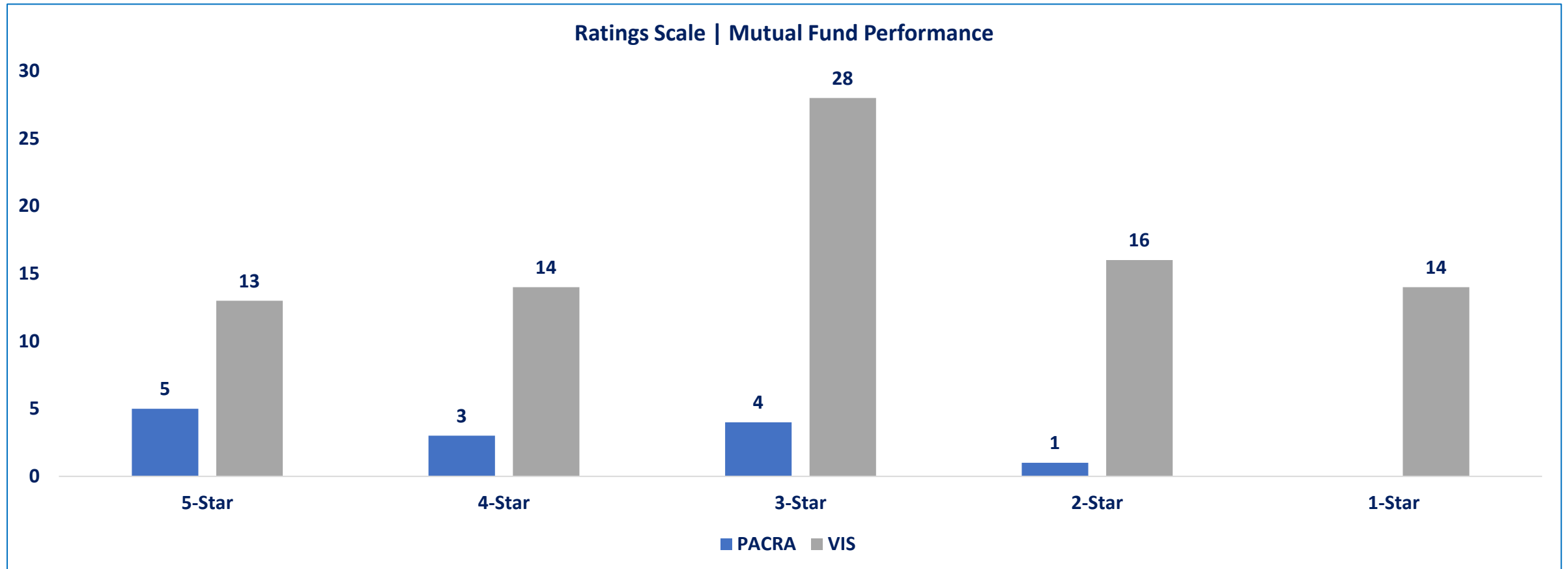
CGT On Redemption

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 FY22-23 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 six 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%

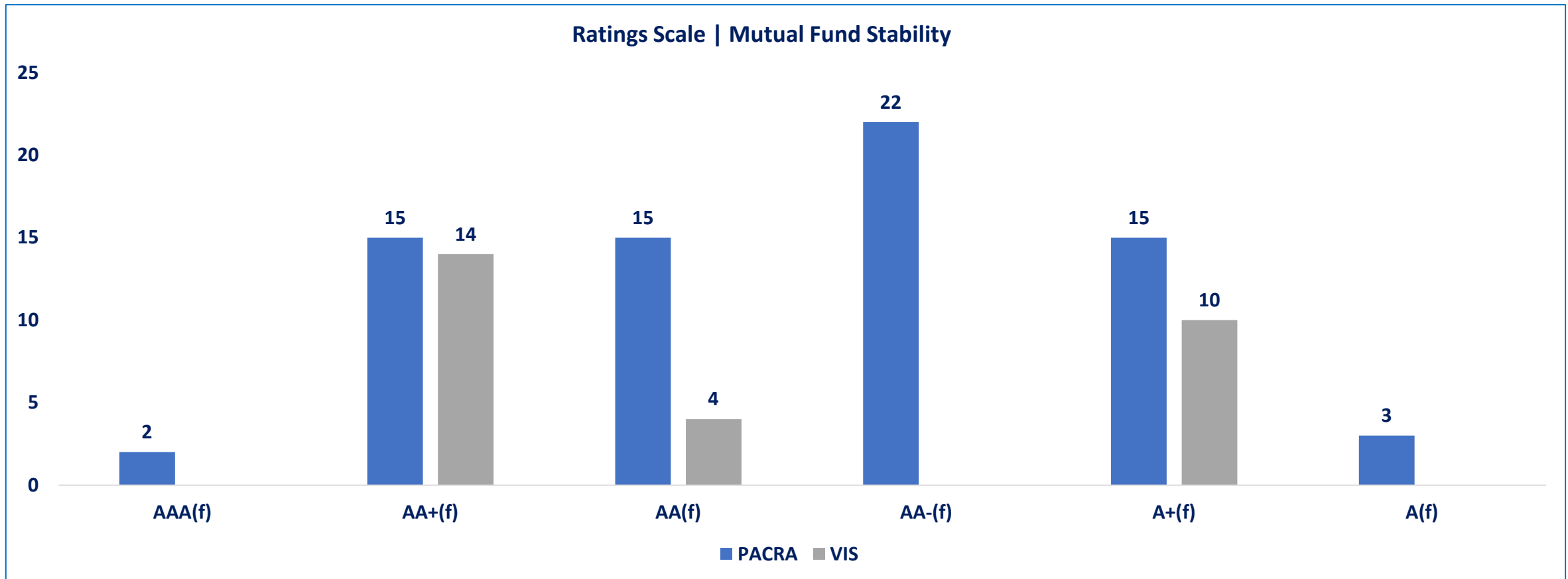
Ratings Scale | Performance

PACRA rates performance of 13 mutual funds between 5-Star to 2-Star bandwidth



Ratings Scale | Stability

PACRA rates stability of 72 mutual funds between AAA(f) to A(f) bandwidth.



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.

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

Threats

Opportunities

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

Outlook: Stable

- Financial Services are a major service sector in Pakistan as these are essential for the smooth operation of a modern economy. In FY23, the sector is estimated to represent ~4.5% of the GDP.
- From FY22 onwards, global supply chain disruptions exacerbated by Russia-Ukraine war, have propelled global commodity prices to their multi-year/all-time highs. High inflation, monetary tightening and economic slowdowns have become a global theme. Along with the global macro economic vulnerabilities, Pakistan further got hit by a devastating flash flood, socio-political unrest and now a grave foreign exchange shortfall as talks with the IMF remain stalled.
- Consequently Pakistan's inflation in May'23 clocked in at hyper ~38%; PKR depreciated by ~46% with import restrictions in place; the MPR stood at a prohibitive 21% with further hikes likely,. The 9MFY23 QIM of the LSM dipped by ~8.7% YoY with all but 4 industrial sectors in red. Resultantly the GDP for FY23 is provisionally estimated to grow by less than ~0.3%, going forward international multilateral agencies i.e., World Bank and IMF estimated the GDP to grow at ~2.0-3.5% in FY24 with persistently high levels of inflation at ~22%.
- While the prospects of new wealth accumulation also remain subdued, as real GNI per capita for FY23 is estimated to decline by ~0.5% YoY and GNP per capita on USD basis is expected to erode by ~11.2% YoY.
- From an investments perspective; equity one of the biggest allocated category returned on average a monthly returns of ~-1.3% (allocation decreased to ~10% in Apr'23 compared to ~23% SPLY) eroding investor wealth. While the MPR hike encouraged investments in fixed income securities (PIBs & T-Bills), increasing allocation to ~33% in Apr'23 compared to ~16% SPLY, this rebalancing is although prudent, but now holds a non zero risk of haircuts or rescheduling under current economic circumstances (if the government decides to restructure debt).
- However in CY22 sizeable investments of PKR~416bln (CY21: PKR~132bln) were made in mutual funds, bringing the AUMs to PKR~1.56tln by the year's end. In 4MCY23, redemptions worth PKR~38bln were made, leading to a ~2% decline in AUMs, but were ~20.1% lower compared to SPLY.
- Given the restrictive monetary environment, public propensity to save can reasonably be expected to persist going forward. PACRA Research is closely monitoring the developing situation and the outlook of the sector in this regard.

- 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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