



MUTUAL FUNDS

Research Team

Saniya Tauseef | Senior Manager Research
Ayesha Wajih | Supervising Senior Research
Sabeen Mirza | Research Analyst

© The Pakistan Credit Rating Agency Limited.



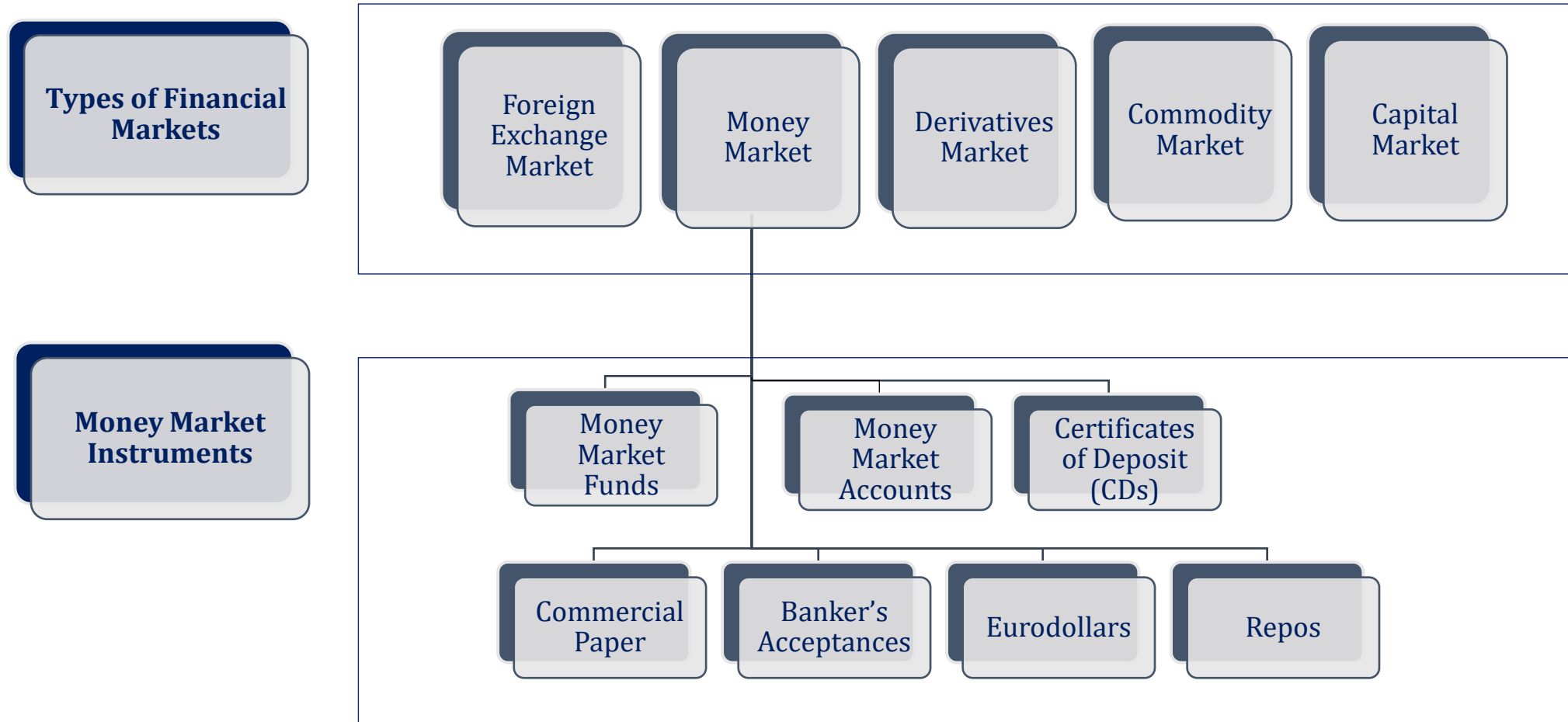
Mutual Funds

Contents	Page.
Introduction	1
Global Overview	5
Regional Comparison India	9
Local GDP Breakdown	10
Macro Economic Factors	11
KSE-100 Returns	13
Market Volumes & Capitalization	14
KSE-100 Sectoral Composition	15
T-Bills & PIBs	16
Sector Returns	18
Types of Mutual Funds	19
Mutual Fund Categories	20

Contents	Page.
Market Share	22
Net Sales	23
AUM Break Up	24
Asset Allocation	25
Risk Downside Deviation	26
Regulatory Framework	29
Regulatory Updates	30
Rating Chart	31
SWOT Analysis	33
Outlook	34
Bibliography	35

Mutual Funds

Capital Markets | Overview



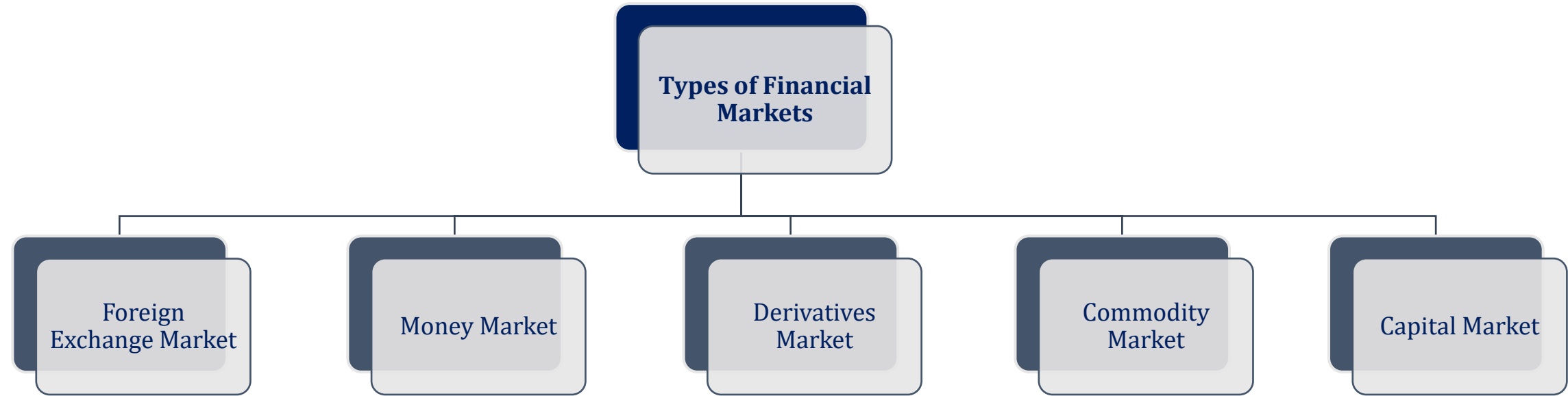
Mutual Funds

Capital Markets | Overview

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

Mutual Funds

Types of Financial Markets | 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.

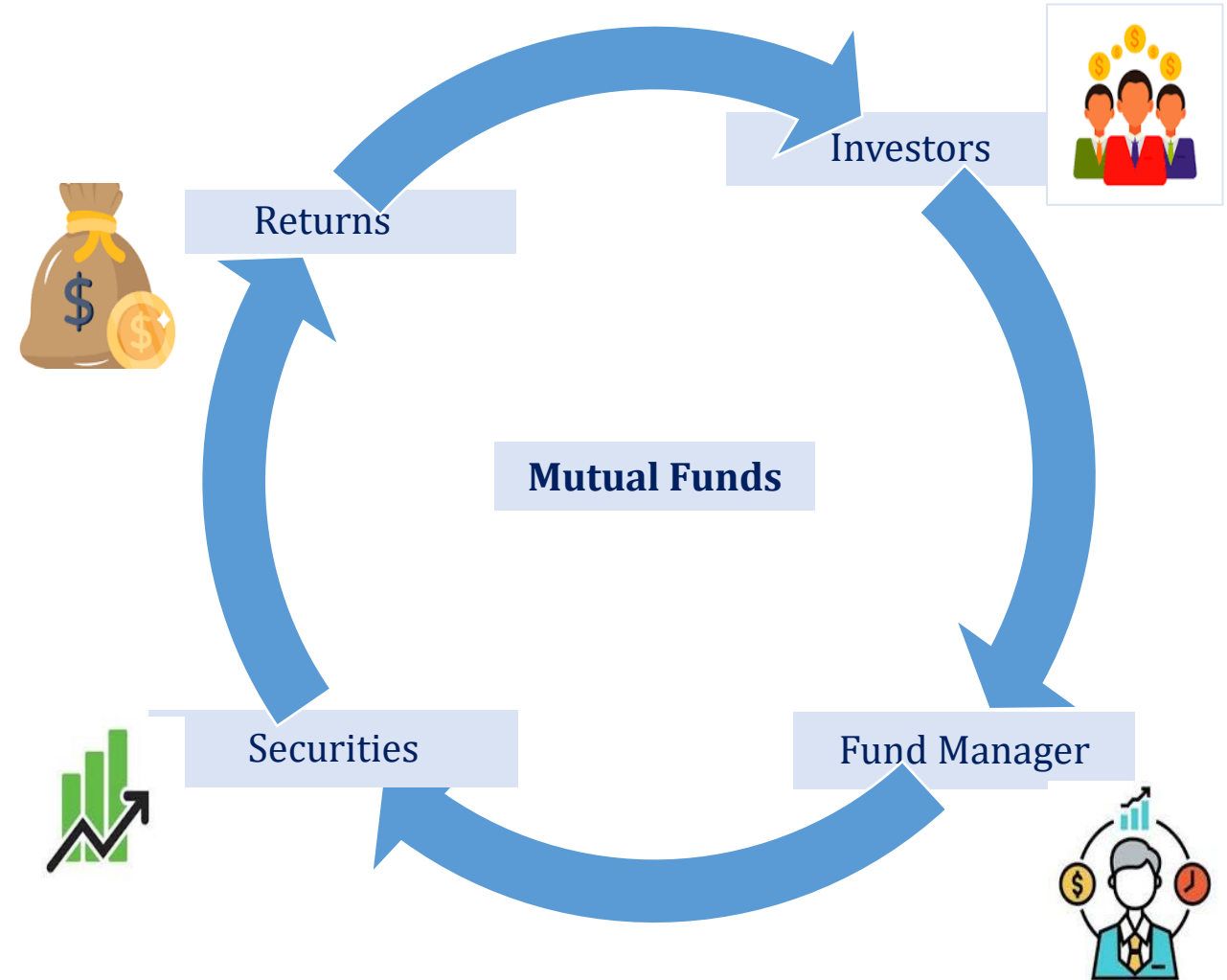
It can be defined as a marketplace for buying, selling, and trading raw materials or primary products. Hard commodities include natural resources such as gold, rubber, and oil, whereas soft commodities are agricultural products or livestock, such as corn, wheat and sugar.

These refer to 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

Overview

- A Mutual Fund is a type of financial vehicle that pools the money of investors with a common financial goal. The pooled funds are invested in securities such as stocks, bonds, money market instruments and other similar assets in order to meet pre-defined 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-end funds can be redeemed at any point, while closed-end funds can be sold in the secondary market.

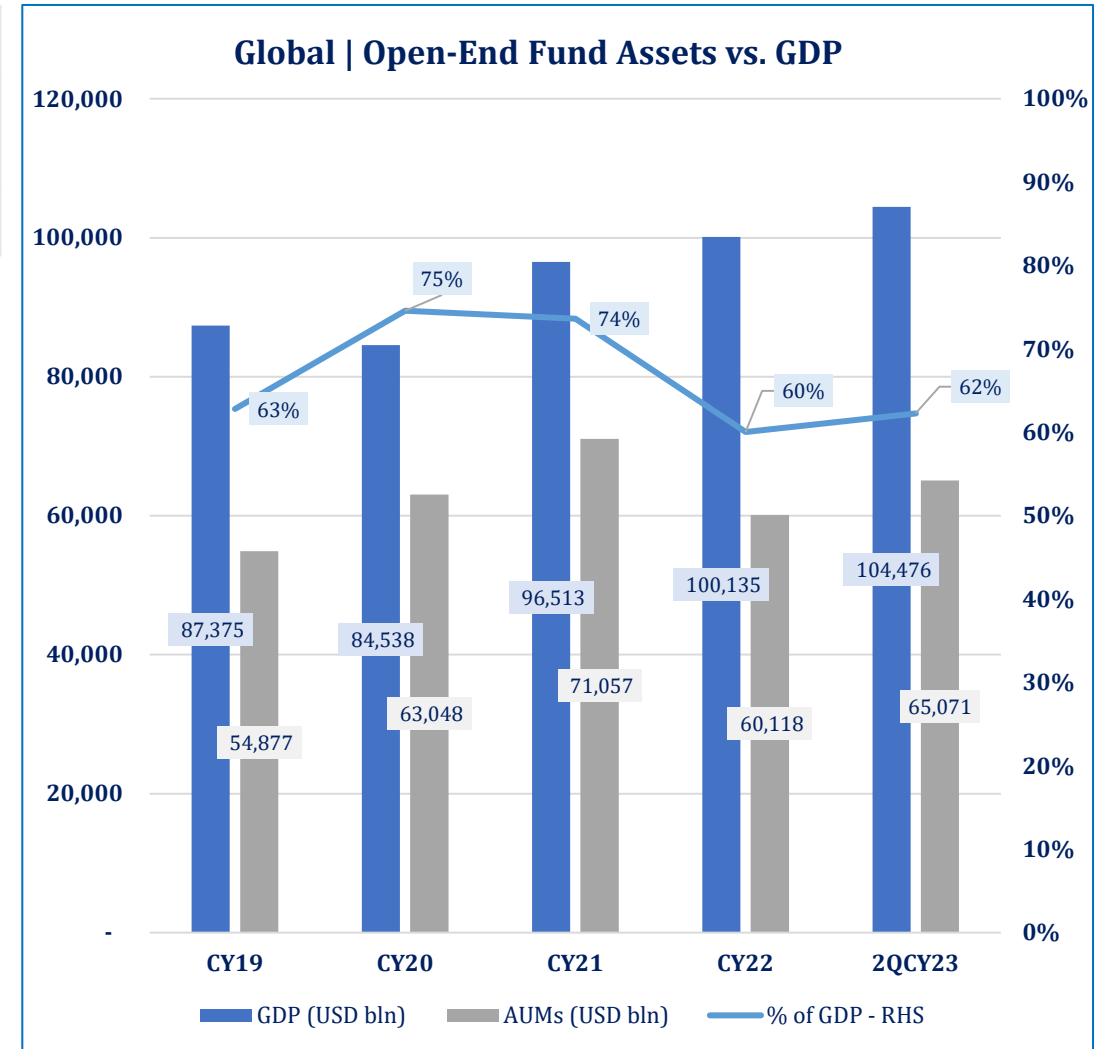


Mutual Funds

Global | Open-End Funds

Year	CY19	CY20	CY21	CY22	2QCY23
Open-End Fund Assets (USD bln)	54,877	63,048	71,057	60,118	65,071
YoY Growth (%)	17.5%	14.9%	12.7%	-15.4%	8.7%*

- Average CAGR for the global open-end fund assets for the last four years (CY19-CY22) was recorded at ~3.5%.
- In 2QCY23, global open-end fund assets remained concentrated in equity funds (~46.0%), while the Americas made up ~54.2% of these assets during the same time.
- During 2QCY23, net sales (or net inflows) of open-end fund assets amounted to USD~461bln (an increase of ~415.9% YoY), to which the Americas, Asia & Pacific, Europe and Africa, contributed ~51.6%, ~45.7% ~2.5% and ~0.2%, respectively. Within Asia & Pacific, the most pronounced inflows were reported in China (~83.0%).
- Although the overall European region reported net inflows, a few countries including Luxembourg, Netherlands and the UK reported net outflows depicting a bleak economic outlook. Additionally, the outpouring of investments in these European countries reflect negative investor sentiment.



*Note: Open-End Fund Assets include Mutual Funds, ETFs and Institutional Funds. Funds of Funds (FOF) are not included. GDP figure are estimates from the World Bank.; *YoY growth.*

Mutual Funds

Global | Region-Wise Open-End Funds

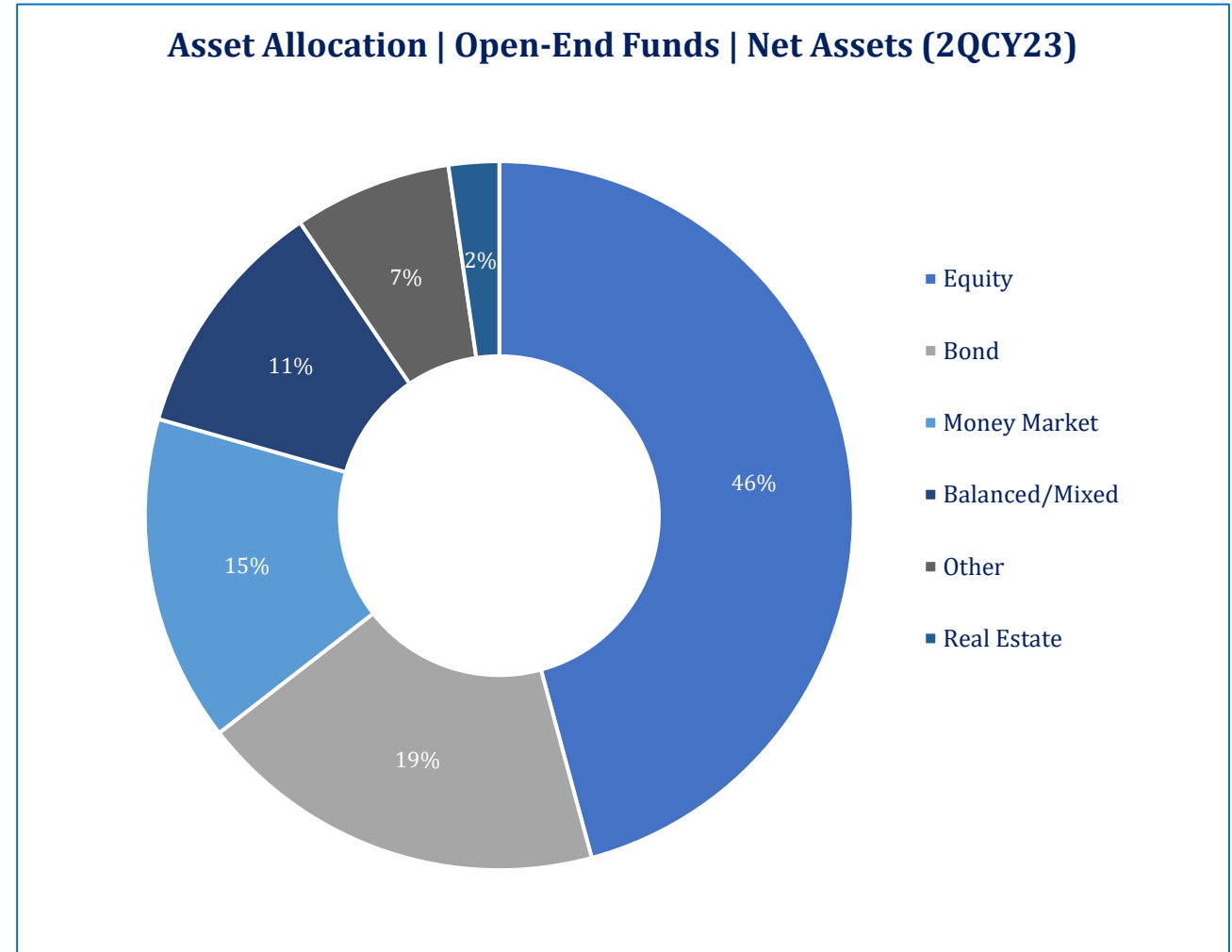
Global Open-End Funds Total Net Assets (USD bln)										
Region	CY19		CY20		CY21		CY22		2QCY23	
	Value	Share	Value	Share	Value	Share	Value	Share	Value	Share
Americas	28,640	52.2%	32,325	51.3%	37,533	52.8%	31,804	52.9%	35,237	54.2%
Europe	18,812	34.3%	21,756	34.5%	23,328	32.8%	19,052	31.7%	20,328	31.2%
Asia & Pacific	7,248	13.2%	8,781	13.9%	9,999	14.1%	9,077	15.1%	9,328	14.3%
Africa	177	0.3%	186	0.3%	197	0.3%	185	0.3%	178	0.3%
Total	54,877	100.0%	63,048	100.0%	71,057	100.0%	60,118	100.0%	65,071	100.0%

Global Open-End Funds Number of Funds										
Region	CY19		CY20		CY21		CY22		2QCY23	
	Nos.	Share	Nos.	Share	Nos.	Share	Nos.	Share	Nos.	Share
Americas	28,733	23.4%	30,298	24.1%	33,039	25.1%	35,636	25.9%	36,440	26.2%
Europe	56,955	46.5%	57,753	45.9%	58,986	44.8%	60,079	43.6%	59,614	42.9%
Asia & Pacific	35,260	28.8%	35,974	28.6%	38,073	28.9%	40,330	29.3%	41,015	29.5%
Africa	1,610	1.3%	1,686	1.3%	1,710	1.3%	1,769	1.3%	1,805	1.3%
Total	122,558	100.0%	125,711	100.0%	131,808	100.0%	137,814	100.0%	138,874	100.0%

Mutual Funds

Global | Asset Allocation | Open-End Funds

- During 2QCY23, equity funds account for ~46.0% of the global open-end fund assets followed by bond funds (~19.0%) and money market funds (~15.0%).
- During the period under review, in terms of asset allocation, all fund types, except balanced/mixed, registered an increase in terms of net assets under management with money market fund assets witnessing the largest increase of ~14.6% YoY, followed by equity fund assets ~(12.1%) YoY, while net assets of balanced/mixed open-end fund declined by ~0.4%.



Mutual Funds

AUMs | Asia & Pacific Regions (2QCY23)

Particulars (USD bln)	China	Australia	Japan	Korea	India	Taiwan	New Zealand	Philippines	Pakistan	Total
Open-End Fund Assets	3,300	2,479	2,078	646	535	179	100	5	6	9,328
GDP	17,700	1,688	4,231	1,709	3,732	752	249	436	321	30,818
Open-End Fund Assets (% of GDP)	18.6%	146.9%	49.1%	37.8%	14.3%	23.8%	40.2%	1.1%	1.9%	30.3%
Net Sales	175.0	N/A	3.9	1.7	22.6	6.8	0.6	-0.2	0.4	210.8
Net Sales (% of Asia-Pacific Net Sales)	83.0%	N/A	1.9%	0.8%	10.7%	3.2%	0.3%	-0.1%	0.2%	100.0%

*Note: Pakistan's GDP figure is based on revised FY23 figures converted at the average exchange rate for the year. Other GDP figures are WB CY23 estimates.
N/A: not available*

Mutual Funds

Regional Comparison | India

Category-wise Open-End Fund Assets Dec'23 (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	6,124	2,312	4,248	1,279	6,800	1,494	22,257
HNW Individuals	1,196	9,936	2,725	5,253	500	1,547	21,157
Retail	122	13,947	311	1,408	151	826	16,765
Banks/FIs	392	9	317	4	33	27	782
Foreign Institutional Investors	1	32	10	3	1	0	48
Total	7,836	26,236	7,612	7,947	7,485	3,893	61,009

Note: USD Conversion Rate: As at 31st Dec, 2023. HNW: High Net Worth

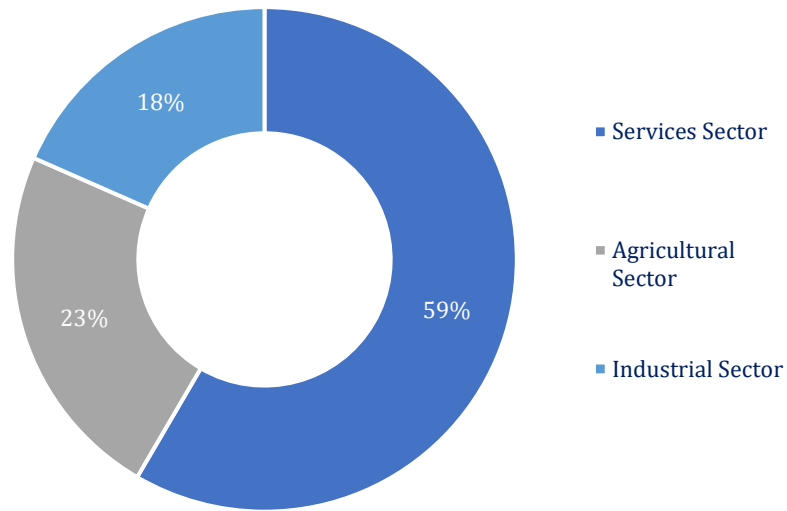
Source: Association of Mutual Funds in India

Mutual Funds

Local | GDP Breakup

- Pakistan's real GDP posted a contraction of ~0.2% in FY23 (FY22: growth of ~6.2%). In nominal terms in FY23, GDP stood at PKR~79.7trn as compared to PKR~63.3trn in FY22.
- 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.

Sectoral Shares | GDP (FY23)



Sector-wise GDP Break-Up (%)				
Sector	FY22	FY23	1QFY23	1QFY24
Livestock	14.04	14.41	15.43	15.74
Crops	7.84	7.87	7.36	7.62
Forestry	0.49	0.56	0.55	0.57
Fishing	0.32	0.32	0.27	0.26
Agricultural Sector	22.68	23.17	23.61	24.19
Large Scale Manufacturing	9.24	8.43	8.29	8.16
Electricity Generation + Distribution & Gas Distribution	2.41	2.61	3.37	3.29
Small Scale Manufacturing	1.98	2.16	2.11	2.27
Construction	2.56	2.29	2.24	2.22
Mining & Quarrying	1.71	1.62	1.54	1.54
Slaughtering	1.21	1.29	1.27	1.33
Industrial Sector	19.11	18.41	18.83	18.82
Wholesale & Retail Trade	18.83	18.15	17.80	17.89
Transport, Storage & Communication	11.78	13.4	13.39	13.30
Other Private Services	8.32	8.83	8.77	8.90
Housing Services	5.57	5.77	5.75	5.84
General Government Services	4.64	4.35	4.26	3.46
Education	2.77	3.04	3.00	2.92
Human Health & Social Work Activities	1.55	1.71	1.68	1.62
Finance & Insurance	1.86	1.73	1.87	1.59
Accommodation & Food and Services	1.40	1.45	1.45	1.48
Services Sector	56.71	58.42	57.97	56.99

Mutual Funds

Local | Yearly Economic Indicators

Monetary Sector	FY14	FY15	FY16	FY17	FY18	5-Year Avg	FY19	FY20	FY21	FY22	FY23	5-Year Avg	7MFY23	7MFY24
Avg. Inflation Rate (CPI)	8.60%	4.50%	2.90%	4.20%	3.90%	4.82%	7.30%	10.70%	8.90%	21.30%	29.40%	15.52%	25.41%	28.73%
Avg. KIBOR (%)	9.88%	8.85%	6.49%	6.11%	6.39%	7.54%	10.43%	11.95%	7.43%	10.83%	18.26%	11.78%	16.29%	22.30%
Monetary Policy Rate (MPR) (period-end)	9.75%	6.50%	5.75%	5.75%	6.50%	6.85%	12.25%	7.00%	7.00%	13.75%	22.00%	12.40%	13.75%	22.00%
Avg. PKRV (%)	9.75%	8.67%	6.34%	5.95%	6.26%	7.39%	10.20%	11.79%	7.28%	10.68%	18.08%	11.61%	16.13%	22.12%
Avg. Exchange Rate (USD/PKR)	102.84	101.5	104.4	104.78	110.1	104.72	136.45	158.4	160.5	191.9	247.66	178.98	225.19	286.23
External Sector	FY14	FY15	FY16	FY17	FY18	5 Year Avg	FY19	FY20	FY21	FY22	FY23	5 Year Avg	7MFY23*	7MFY24*
Current Account Balance (USD mln)	-3,130	-2,815	-4,961	-12,270	-19,195	-8,474	-13,434	-2,970	-1,852	-17,481	-2,235	-7,594	-3,629	-831
Exports (USD mln)	25,078	24,090	21,972	22,003	24,768	23,582	24,257	22,536	25,630	31,792	27,735	26,390	16,481	17,782
Imports (USD mln)	41,668	41,357	41,118	48,001	55,671	45,563	51,869	43,645	53,785	80,177	55,330	56,961	36,034	30,949
Trade Balance (USD mln)	-16,950	-17,267	-19,146	-25,998	-30,903	22,053	-27,612	-21,109	-28,155	-48,385	-27,595	-30,571	-19,553	-13,167
FX Reserves (USD mln)	14,141	18,699	23,099	21,403	16,384	18,745	14,482	18,886	24,398	15,537	9,160	16,493	8,170	13,263

*Current Account data pertains to 6MFY23 and 6MFY24, while Trade data and FX Reserve values are as for 7MFY23 and 7MFY24.

Mutual Funds

Local | Monthly Economic Indicators (CY23)

Monetary Sector	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Jan'24
Avg. Inflation Rate (CPI)	27.6%	31.5%	35.4%	36.4%	38.0%	29.4%	28.3	27.4%	31.4%	26.8%	29.2%	29.7%	28.3%
Avg. KIBOR (%)	17.4%	18.7%	21.2%	22.1%	22.1%	22.2%	23.0%	23.1%	23.6%	22.5%	21.6%	21.6%	21.01%
Monetary Policy Rate (MPR) (period-end)	16.3%	17.0%	19.9%	20.9%	21.0%	21.1%	22.0%	22.0%	22.0%	22.0%	22.0%	22.00%	22.00%
Avg. PKRV (%)	17.3%	18.5%	20.9%	21.8%	21.9%	22.0%	22.9%	22.9%	23.5%	22.2%	21.3%	21.4%	20.87%
Avg. Exchange Rate (USD/PKR)	235.2	267.0	281.5	285.0	286.0	286.9	281.9	294.6	297.9	280.7	285.8	283.3	280.50
External Sector	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Jan'24*
<i>(USD mln)</i>													
Current Account balance for the Month	-167	-50	796	128	172	515	-775	-164	-46	-184	-15	397	N/A
Exports	2,244	2,191	2,372	2,137	2,200	2,356	2,068	2,366	2,476	2,690	2,573	2,812	2,790
Imports	4,875	4,034	3,816	2,997	4,328	4,219	3,705	4,528	3,994	4,864	4,539	4,514	4,737
Trade Balance	-2,631	-1,843	-1,444	-860	-2,128	-1,863	-1,637	-2,162	-1,518	-2,174	-1,966	-1,702	-1,947
FX Reserves	8,169.7	8,751.3	9,163.6	9,456.9	8527.7	9,160.0	12,906.5	12,575.8	12,392.7	12,033	11,479	12,673	13,263

*Note: MPR as of month-end. *Current Account data N/A for the month of Jan'24.*

Mutual Funds

Local | KSE-100 Returns | Monthly & Annual

KSE-100 Index	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	7MFY23	7MFY24
Index Value	29,653	34,399	37,784	46,565	41,911	33,902	34,422	47,356	41,541	41,453	40,673	61,979
Returns (%)	41.2%	16.0%	9.8%	23.2%	-10.0%	-19.1%	1.5%	37.5%	-12.3%	-0.2%	-2.1%	49.5%
Avg. Volume ('000')	146,172	140,985	113,970	140,349	83,873	96,809	135,873	246,962	115,839	88,607	95,645	254,880

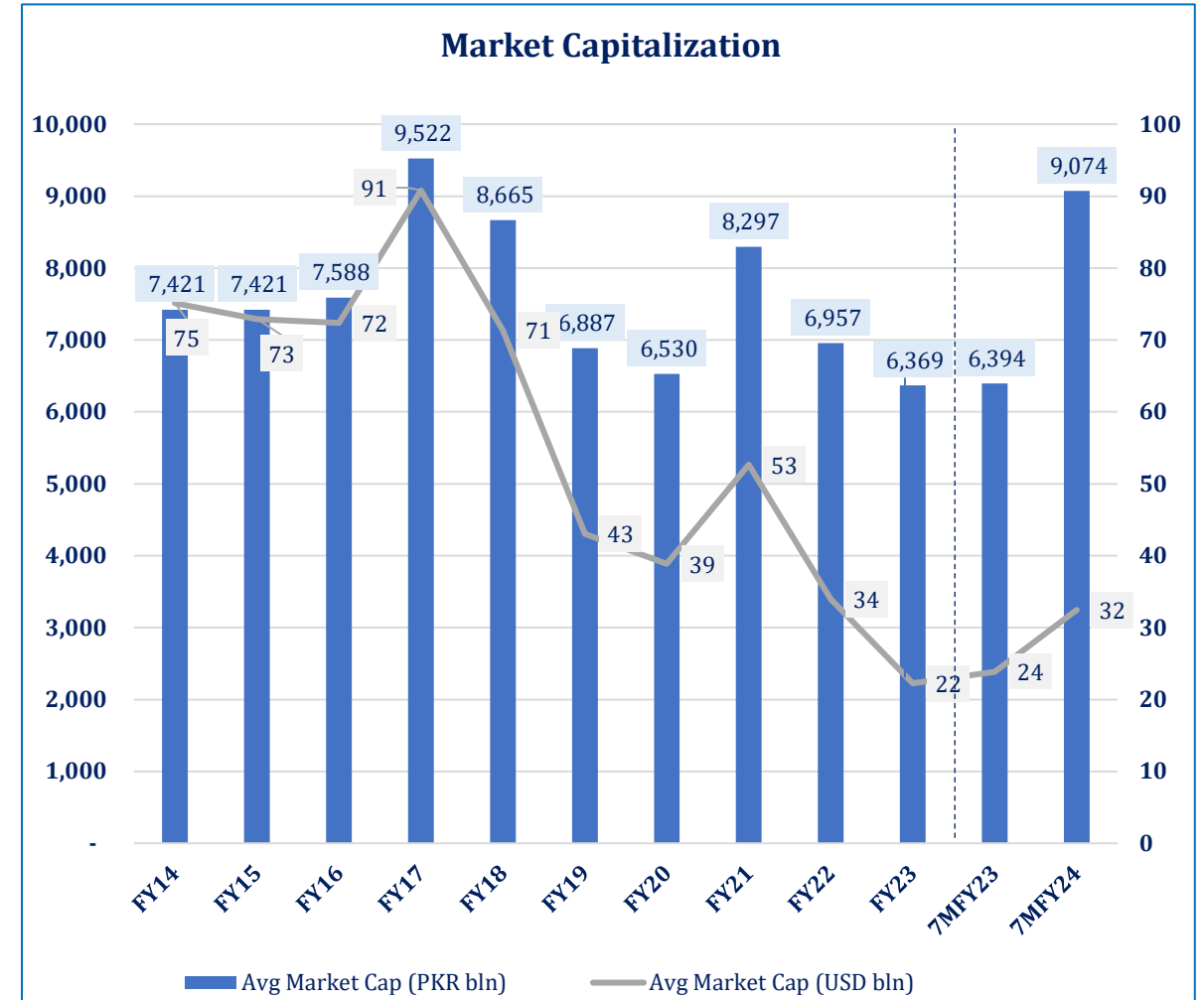
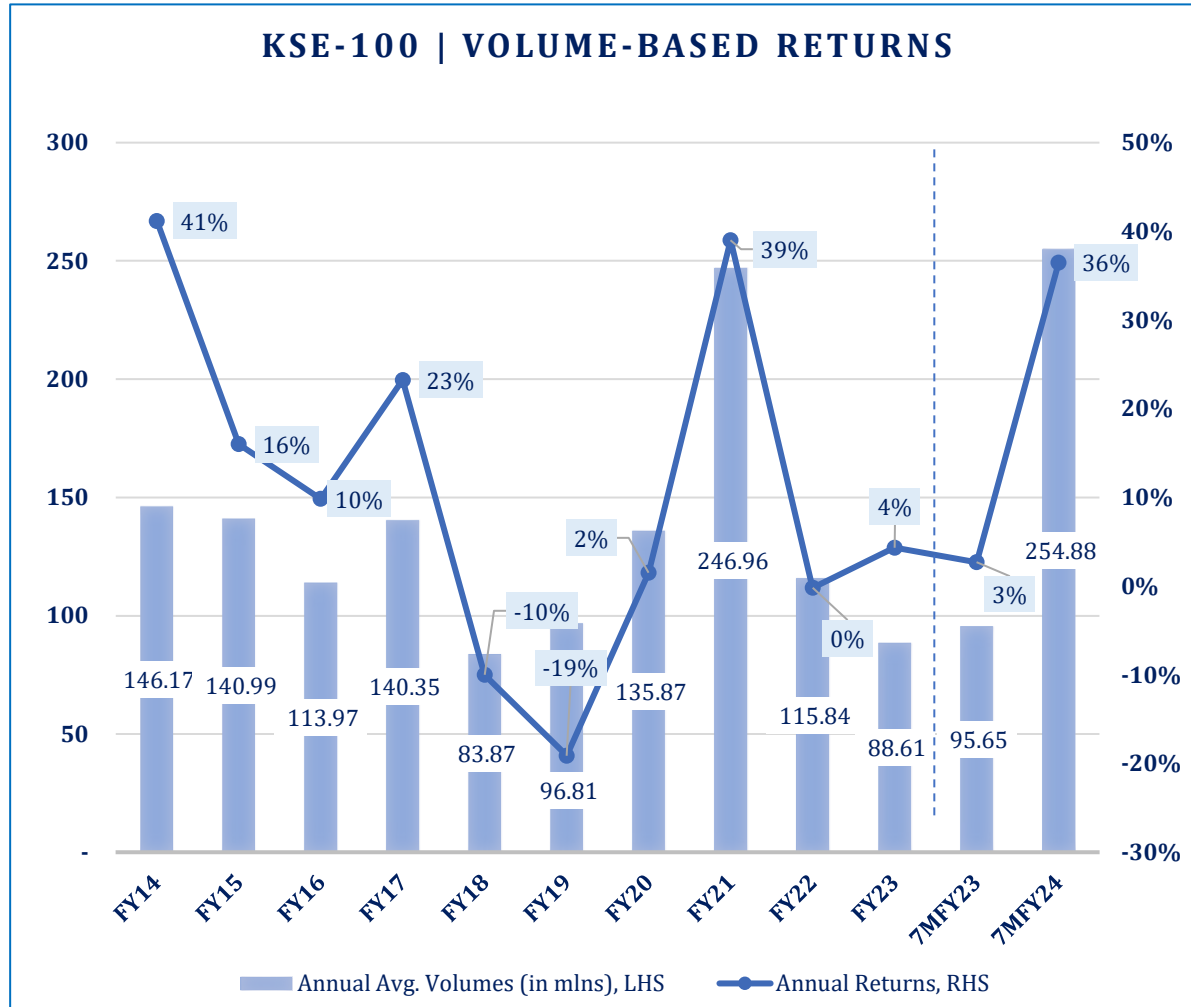
KSE-100 Index	CY14	CY15	CY16	CY17	CY18	CY19	CY20	CY21	CY22	CY23	1MCY24
Index Value	32,131	32,816	47,807	40,471	37,067	40,735	43,755	44,596	40,420	62,451	61,979
Returns (%)	27.2%	2.1%	45.7%	-15.3%	-8.4%	9.9%	7.4%	1.9%	-9.4%	54.5%	-0.8%
Avg. Volume ('000')	135,535	142,929	130,599	102,467	96,572	107,225	208,139	190,870	98,396	166,594	294,969

KSE-100 Index	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Jan'24
Index Value	40,673	40,510	40,001	41,581	41,331	41,453	48,034	45,002	46,233	51,920	60,531	62,451	61,979
Returns (%)	0.6%	-0.4%	-1.3%	4.0%	-0.6%	0.3%	15.9%	-6.3%	2.7%	12.3%	16.6%	3.2%	-0.8%
Avg. Volume ('000')	95,846	102,026	81,241	54,223	76,846	79,395	195,190	164,808	84,301	189,842	290,615	564,459	294,969

Note: Index values as of period-end

Mutual Funds

Local | Market Volumes & Capitalization

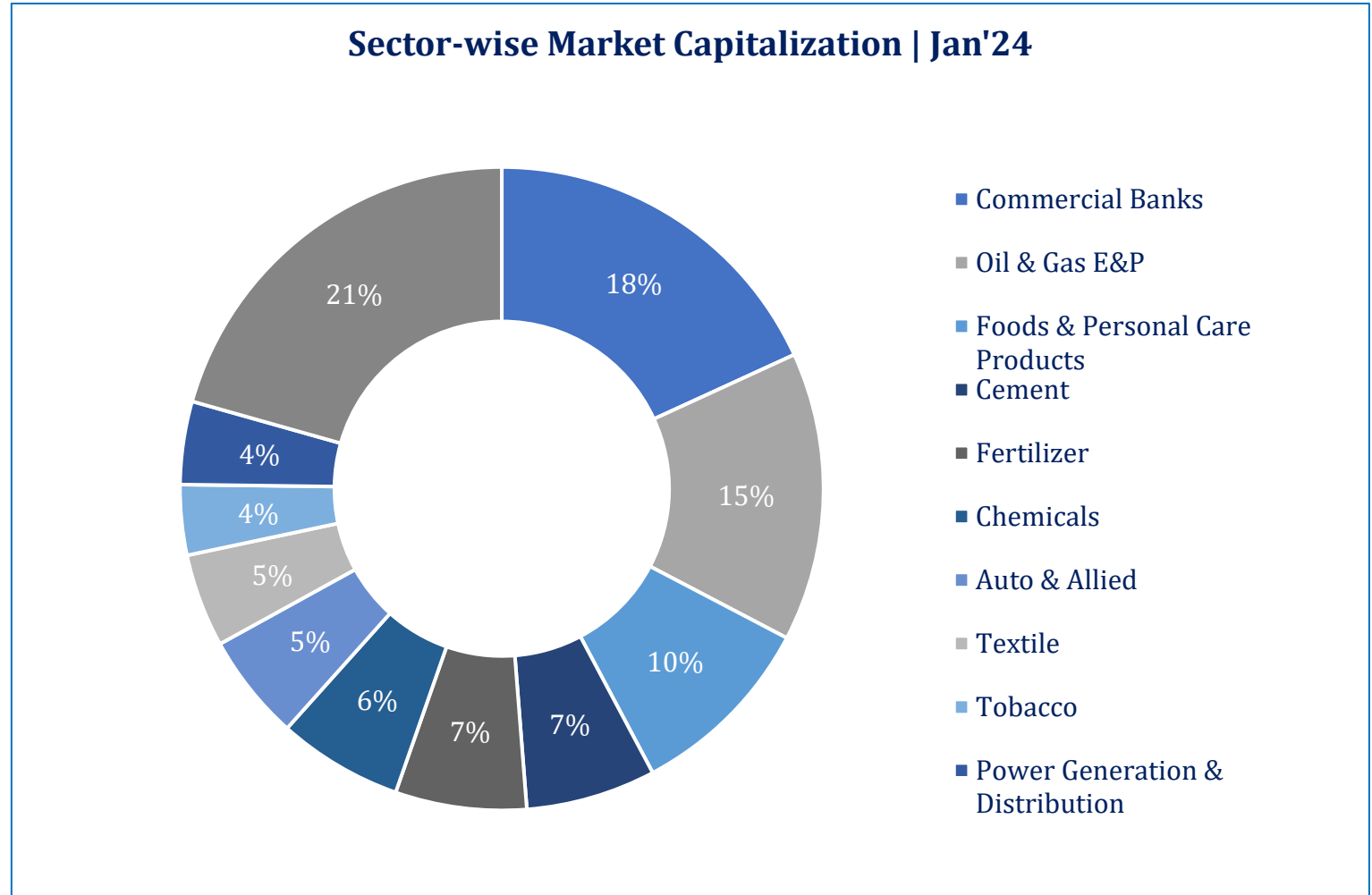


Note: Market capitalization as of year-end

Mutual Funds

Market Capitalization | Sectoral Composition

- Sector-wise market capitalization of Pakistan Stock Exchange (PSX) stood at PKR~9.1trn as of End-Jan'24 (End-Jan'23: ~6.4trn).
- During this time, market capitalization of Commercial Banks stood at PKR~1.6trn and accounted for ~18% (SPLY: ~16%) of the total market capitalization.



Mutual Funds

Local | T-Bills & PIBs | Overview

T-Bills Auction CY23	Average Yield		
Total Realized Amount (PKR bln)	3M	6M	12M
56,127	21.32%	21.58%	21.75%

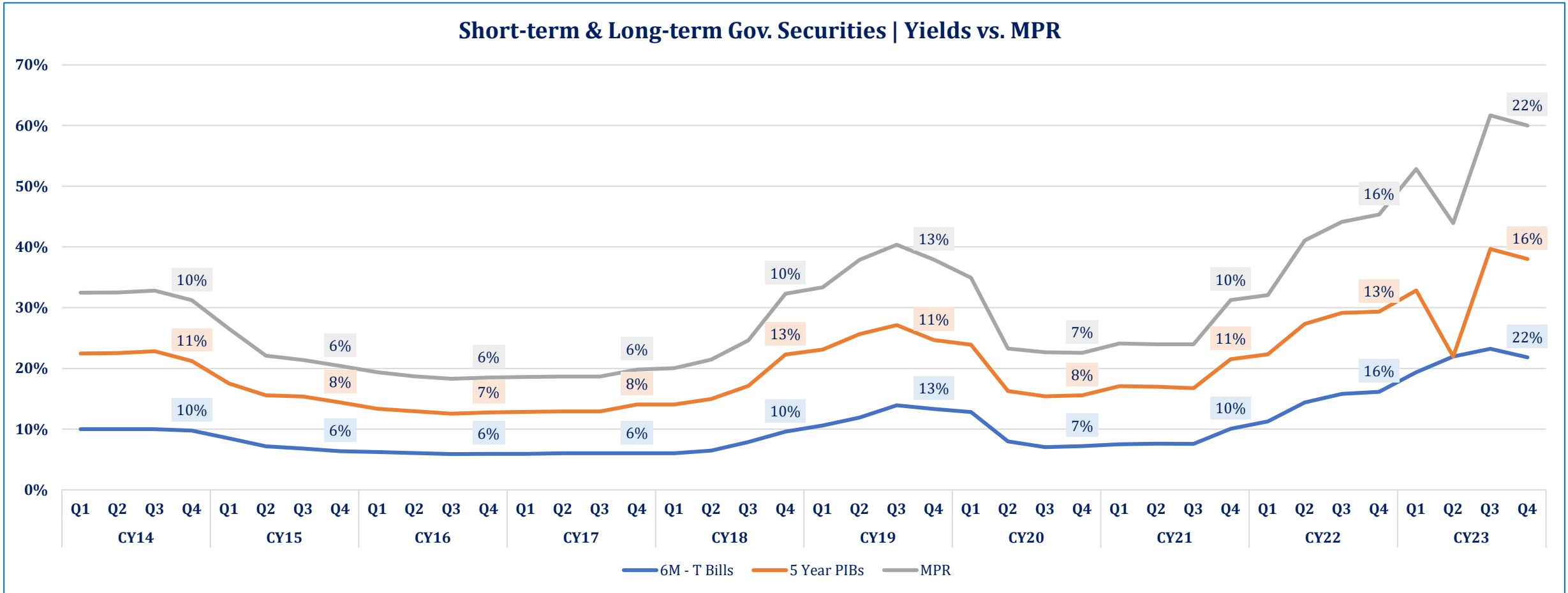
T-Bills Auction CY22	Average Yield		
Total Realized Amount (PKR bln)	3M	6M	12M
33,262	14.27%	14.46%	14.55%

PIBs Auction CY23			
Tenure	Amount Accepted (PKR bln)	Coupon Rate	Weighted Average Yield
3-Year	981	11.00%	18.57%
5-Year	93	10.50%	15.84%
10-Year	175	11.00%	15.13%
15-Year	0	10.50%	0.00%
20-Year	0	11.00%	0.00%

PIBs Auction CY22			
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%

Mutual Funds

Local | T-Bills & PIBs | Yields



Note: MPR as of quarter-end.

Mutual Funds

Local | Sector Returns

Weighted Average Return Open-End Funds												
Category	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23
Money Market	13.07%	12.75%	15.52%	19.94%	19.63%	18.40%	16.00%	20.54%	18.57%	21.00%	20.46%	20.20%
Shariah-Compliant Money Market	12.77%	13.30%	14.39%	18.25%	18.77%	19.10%	15.58%	19.94%	17.77%	20.30%	20.14%	19.82%
Income Scheme	12.06%	12.67%	15.19%	19.23%	19.80%	20.20%	16.82%	20.67%	17.37%	22.63%	22.06%	19.64%
Shariah-Compliant Income	13.46%	13.39%	15.23%	17.12%	18.57%	19.41%	18.29%	19.81%	19.79%	21.16%	20.72%	20.86%
Equity	-5.92%	-7.12%	-1.61%	2.50%	-8.94%	0.72%	-0.42%	-7.04%	4.48%	18.24%	28.52%	26.29%
Shariah-Compliant Equity	-1.04%	-1.23%	0.42%	3.80%	-2.38%	0.16%	13.69%	-7.28%	4.72%	12.77%	16.96%	8.53%

Mutual Funds

Types of Mutual Funds

- **Open-End 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).
- **Closed-End 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-end mutual funds in Pakistan.
- **Voluntary Pension Funds** are personalized, defined, savings-cum-investment vehicles for providing comprehensive framework for life after retirement. It is a system established by an employer to expedite and arrange the investment of employees' retirement funds
- High level of returns along with significant new investment in mutual funds led to a large increase in Assets Under Management (AUMs) during CY23 ~37.0% YoY (SPLY: ~40.0%)

Type of Fund (PKR bln) As at	Dec'19	Dec'20	Dec'21	Dec'22	Dec'23
Open-End	651	920	1,088	1,531	2,098
Closed-End	-	-	-	1	-
Voluntary Pension	30	35	39	43	60
AUMs	681	955	1,127	1,575	2,158

Type of Fund (PKR bln) As at	Jun'19	Jun'20	Jun'21	Jun'22	Jun'23
Open-End	513	742	1,016	1,211	1,572
Closed-End	1	-	-	-	-
Voluntary Pension	26	31	38	41	50
AUMs	540	773	1,054	1,252	1,622

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 end).
- **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

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 depicts the number of funds in the categories rated by PACRA.

Categories	Dec'19		Dec'20		Dec'21		Dec'22		Dec'23	
Equity	27	19%	27	16%	27	10%	28	10%	28	9%
Islamic Equity	18	9%	19	7%	19	7%	21	7%	21	7%
Asset Allocation	14	1%	15	2%	14	5%	13	5%	14	4%
Islamic Asset Allocation	11	2%	12	2%	12	4%	12	4%	12	4%
Balanced	5	1%	5	1%	4	1%	4	1%	4	1%
Others	193	68%	195	72%	206	73%	207	73%	242	75%
Total	268	100%	273	100%	282	100%	285	100%	321	100%

Mutual Funds

Market Share | Asset Management Companies

(Open-End, VPS, EPF & ETFs) PKR bln						
Sr.	Asset Management Company	Jun'22	Dec'22	Jun'23	Dec'23	
		AUMs	AUMs	AUMs	AUMs	Market Share
1	Al-Meezan Investment Management Limited	173	267	303	410	19.00%
2	NBP Fund Management Limited	169	213	238	268	12.40%
3	HBL Asset Management Limited	94	156	159	204	9.50%
4	UBL Fund Managers Limited	116	165	153	194	9.00%
5	ABL Asset Management Limited	89	127	113	170	7.90%
6	MCB Investment Management Limited *	110	160	153	164	7.60%
7	Alfalah Investment Management Limited**	60	75	102	149	6.90%
8	Faysal Asset Management Limited	76	104	98	134	6.20%
9	Al Habib Asset Management Limited	40	75	64	122	5.70%
10	National Investment Trust Limited	88	88	86	113	5.20%
11	Atlas Asset Management Limited	52	49	53	71	3.30%
12	JS Investment Limited	23	43	36	65	3.00%
13	Lakson Investments Limited	20	26	31	45	2.10%
14	Pak Qatar Asset Management Company Limited	0	5	11	21	1.00%
15	AWT Investment Management Limited	2	4	7	14	0.60%
16	AKD Investment Management Limited	7	6	6	8	0.40%
17	Pak Oman Asset Management	8	9	6	5	0.20%
18	786 Investments Limited	1	1	1	1	0.00%
19	First Capital Investments Limited	0.1	0.1	0.1	0.1	0.00%
20	Pak Qatar Family Takaful Limited***	-	-	0	0.1	0.00%
21	Interloop Asset Management Limited****	-	-	-	0.1	0.00%
Total		1,127	1,575	1,622	2,158	100%

Note: VPS : Voluntary Pension Schemes; EPF: Employee Pension Funds). *MCB Investment Management Limited (Formerly: MCB-Arif Habib Savings and Investments Limited till Jun'23); **Alfalah Asset Management Limited (Formerly: Alfalah GHP Investment Management Limited till Apr'23); ***VPS Fund Manager Only; **** Interloop Asset Management w.e.f. Sep'23

Mutual Funds

Local | Net Sales

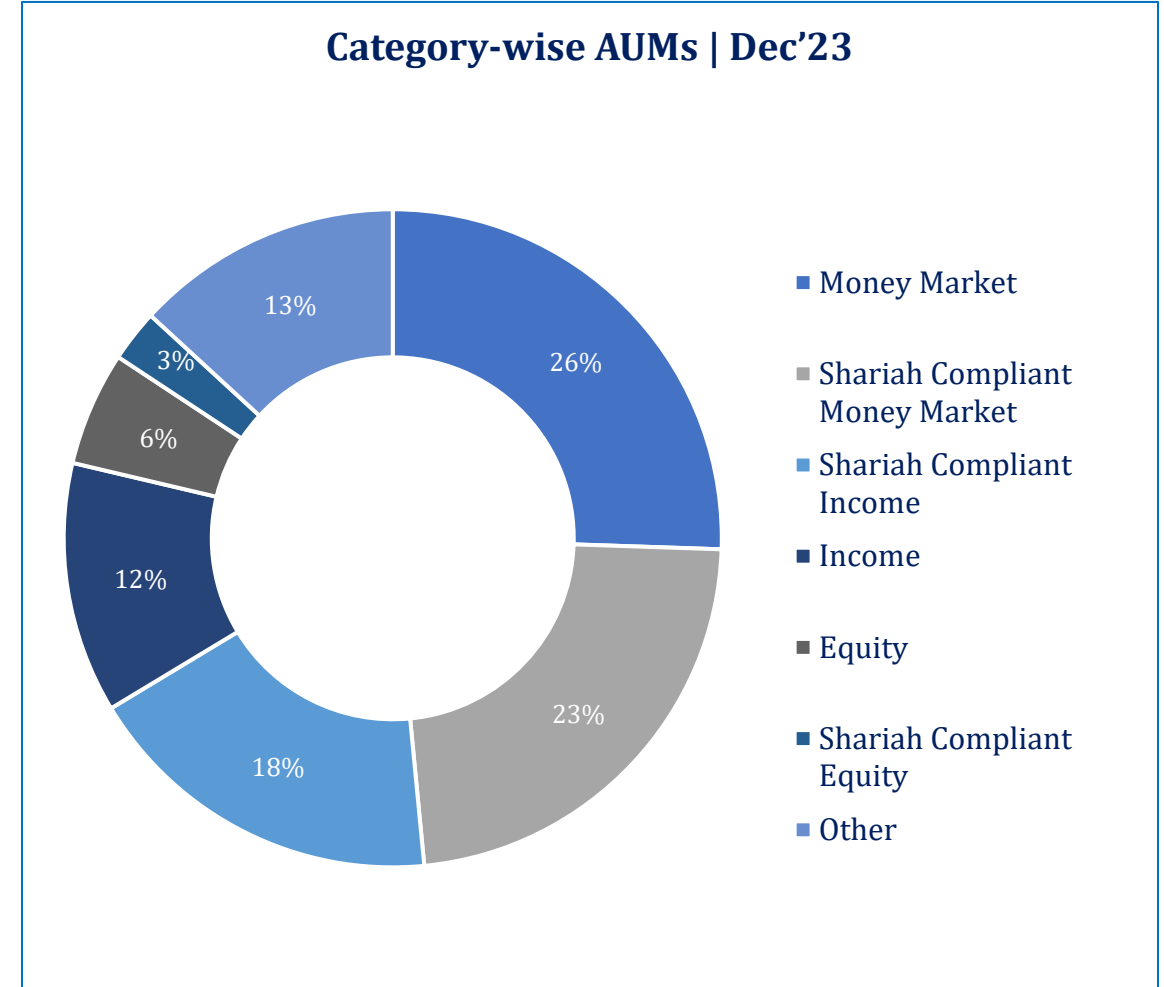
- Sales of mutual funds during CY23 increased by ~38.5% YoY, while the redemptions during the year increased by ~41.5% YoY. As a result, net sales of mutual funds decreased by ~4.4% YoY.
- The shariah-compliant income category experienced the highest level of net sales, followed by the 'Others' category, with these accounting for ~35.5% and ~30.9%, respectively, of total net sales.
- Meanwhile, the Shariah-Compliant Money Market and Income segments demonstrated the next highest level of net sales accounting for ~22.0% and ~15.1%, respectively, of total net sales.
- In CY23, net sales in the Shariah Compliant money market category was down ~43.2% YoY due to decrease in interest rates in this category.
- In CY23, net sales in the conventional equity and Shariah compliant equity categories increased by ~206.7% and ~229.3% YoY owing to increased investors confidence in the equity markets.

Net Sales (PKR mln)	CY23			
	Open End	Sales	Redemptions	Net Sales
Money Market		2,191,646	2,174,062	17,585
Income Scheme		719,407	650,425	68,982
Equity		20,312	40,981 -	20,669
Shariah-Compliant Money Market		1,629,050	1,528,904	100,146
Shariah-Compliant Income		726,278	564,100	162,178
Shariah-Compliant Equity		45,077	62,534 -	17,458
Other		603,939	462,788	141,151
VPS		33,709	29,790	3,919
ETF		162	273 -	111
Employee Pension Fund		491	-	491
Total		5,970,071	5,513,856	456,214

Mutual Funds

Local | Category-wise AUMs

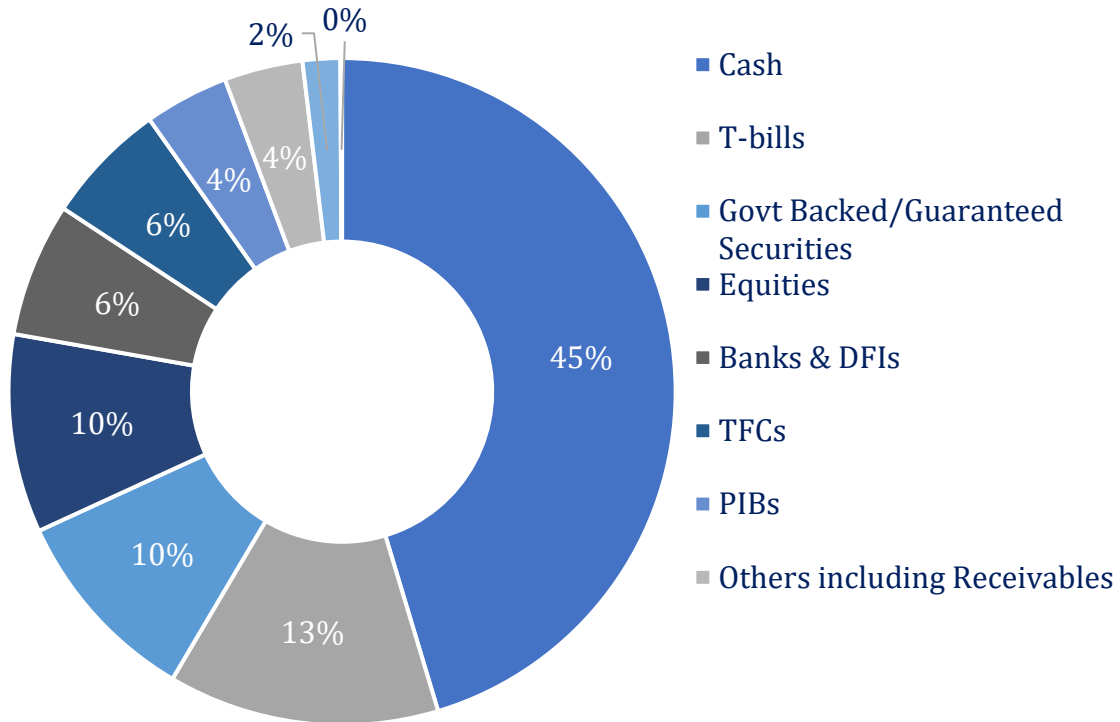
Assets Under Management Breakdown (Dec'23)	
Category	AUMs (PKR bln)
Money Market	551
Shariah-Compliant Money Market	495
Shariah-Compliant Income	386
Income Scheme	266
Equity	121
Shariah-Compliant Equity	55
Other	284
Total AUMs	2,158



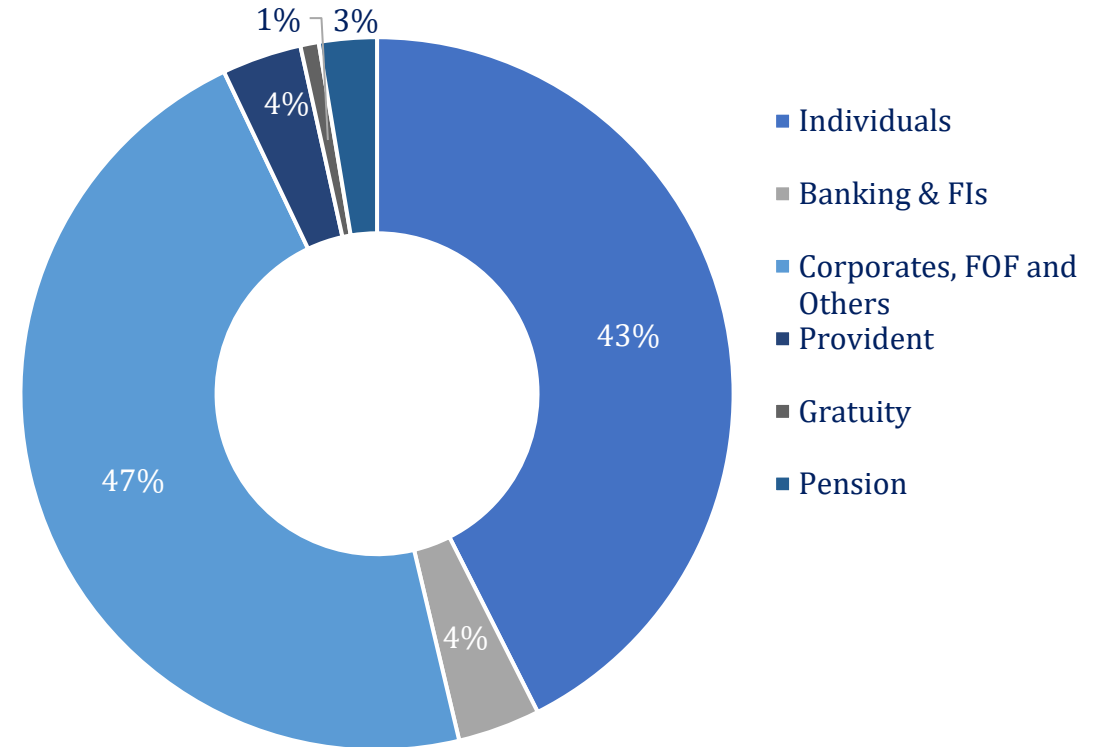
Mutual Funds

Local | Asset Allocation

Asset Allocation | Dec'23



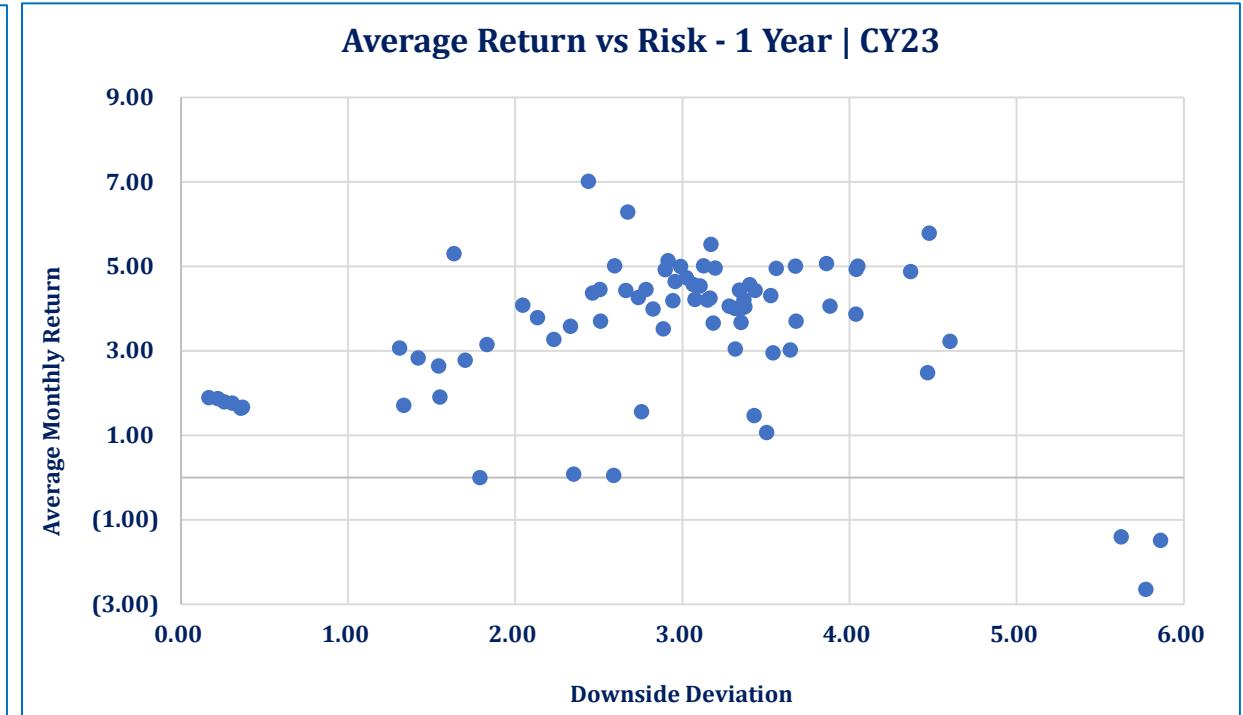
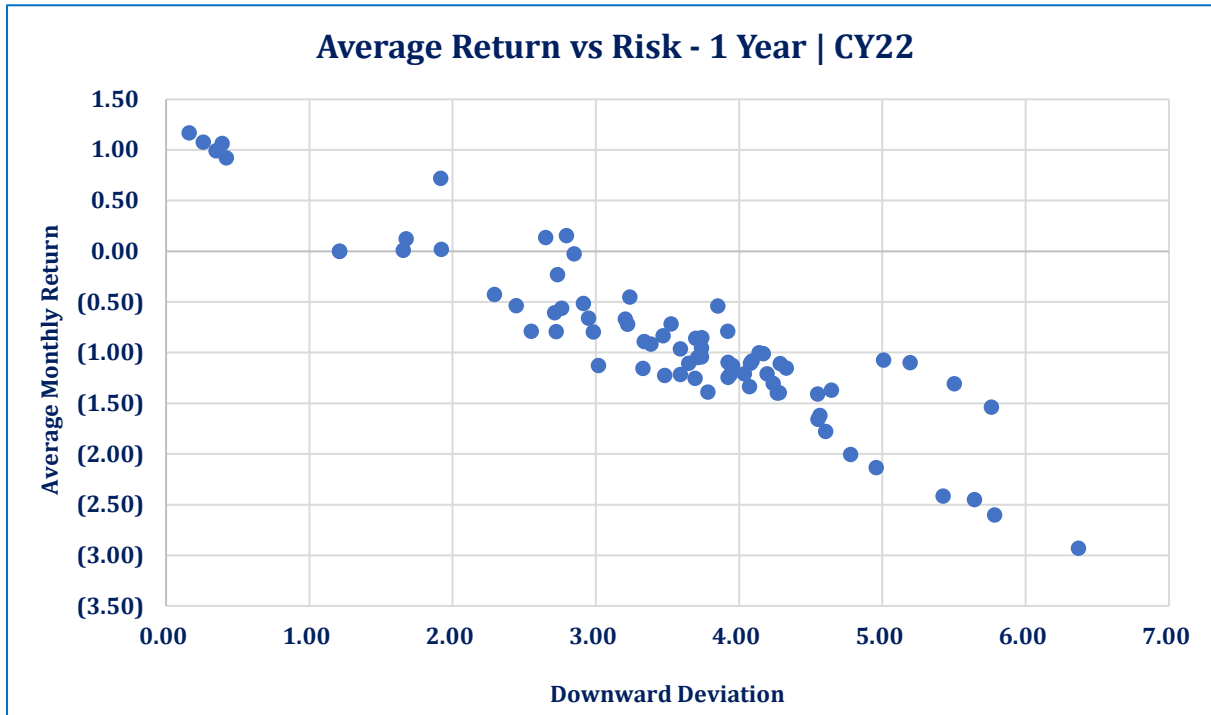
Unit Holder Pattern | Dec'23



Mutual Funds

Downside Deviation | 1 Year

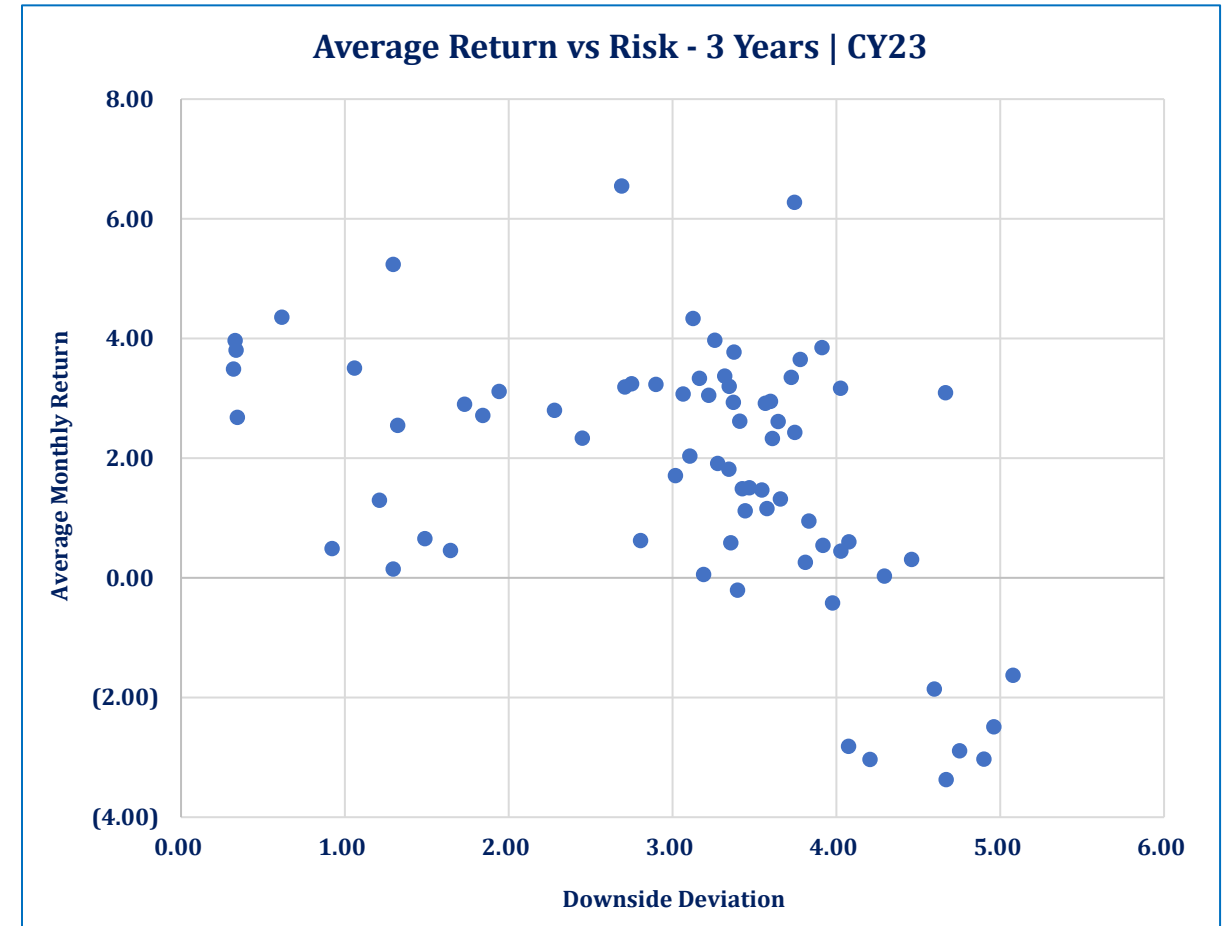
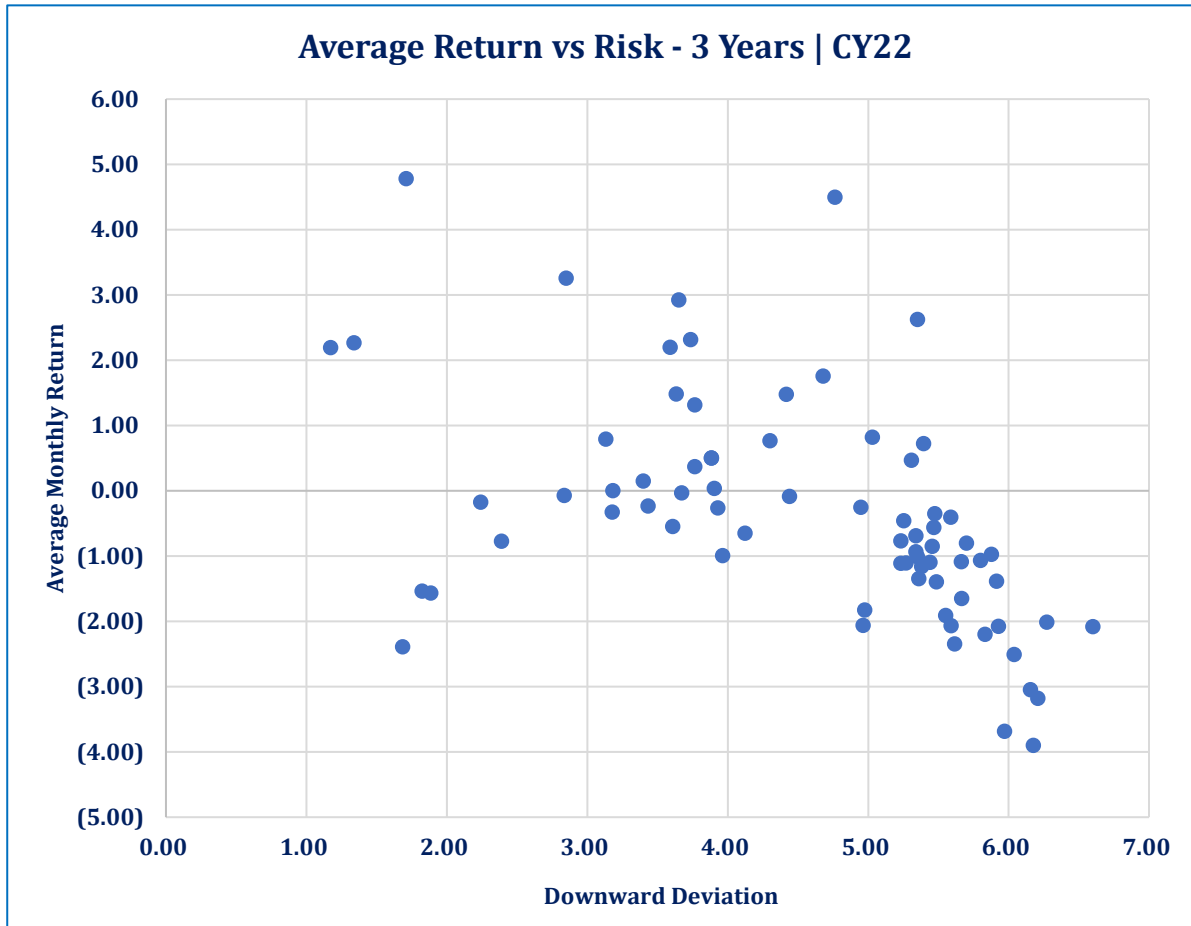
- Downside deviation is a measure of downside risk which is calculated using the returns which fall below a minimum benchmark or Minimum Acceptable Return (MAR). The downside deviation can then be used to calculate a Risk Adjusted Return (RAR) for the mutual funds.
- An advantage of downside risk is 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 graph on the right for 1-year period, a large number of mutual funds fell within a downside deviation range of ~2.5-3.5% (CY22: ~2.0-4.5%).



Note: Downward deviation calculation for 1 year period is based on 76 mutual funds in the categories rated by PACRA.

Mutual Funds

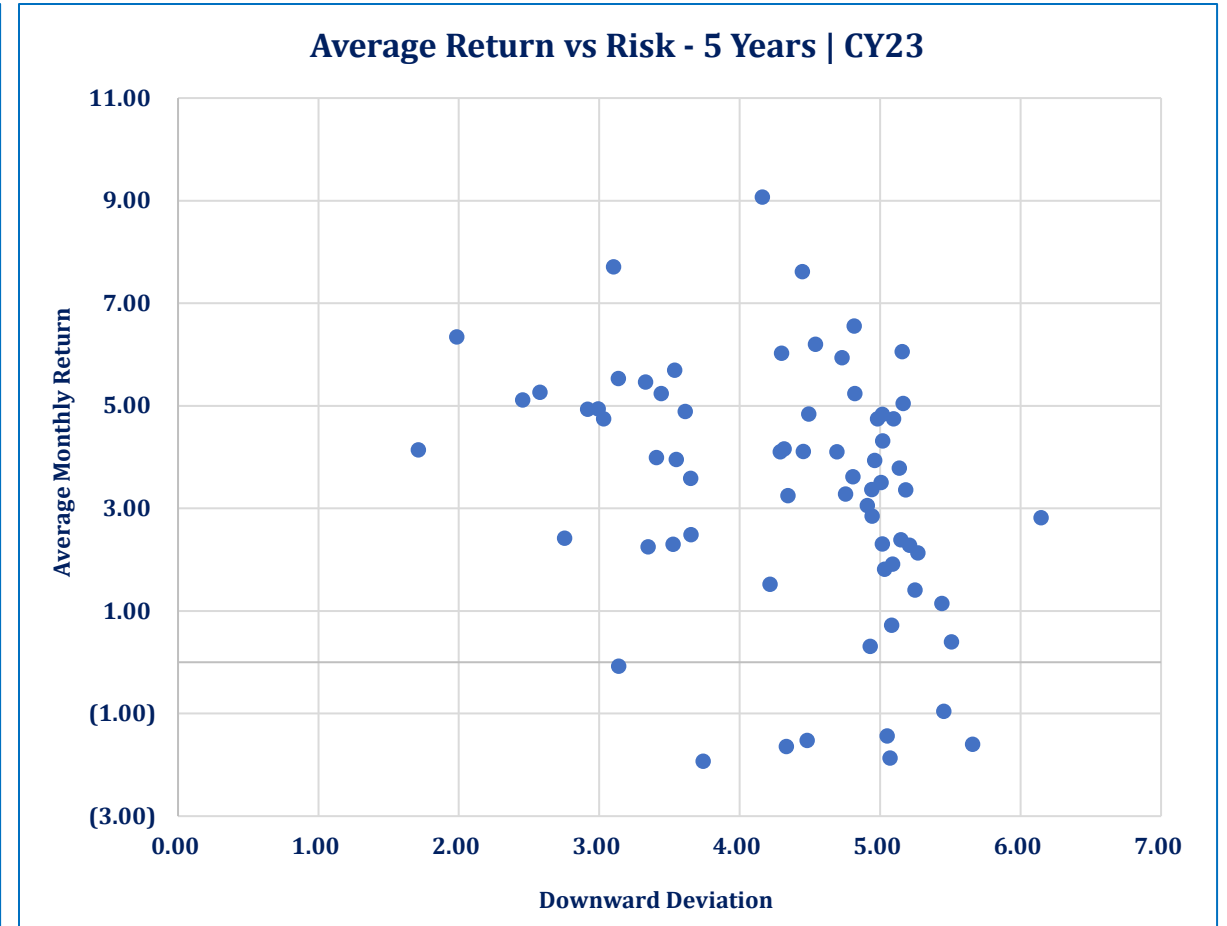
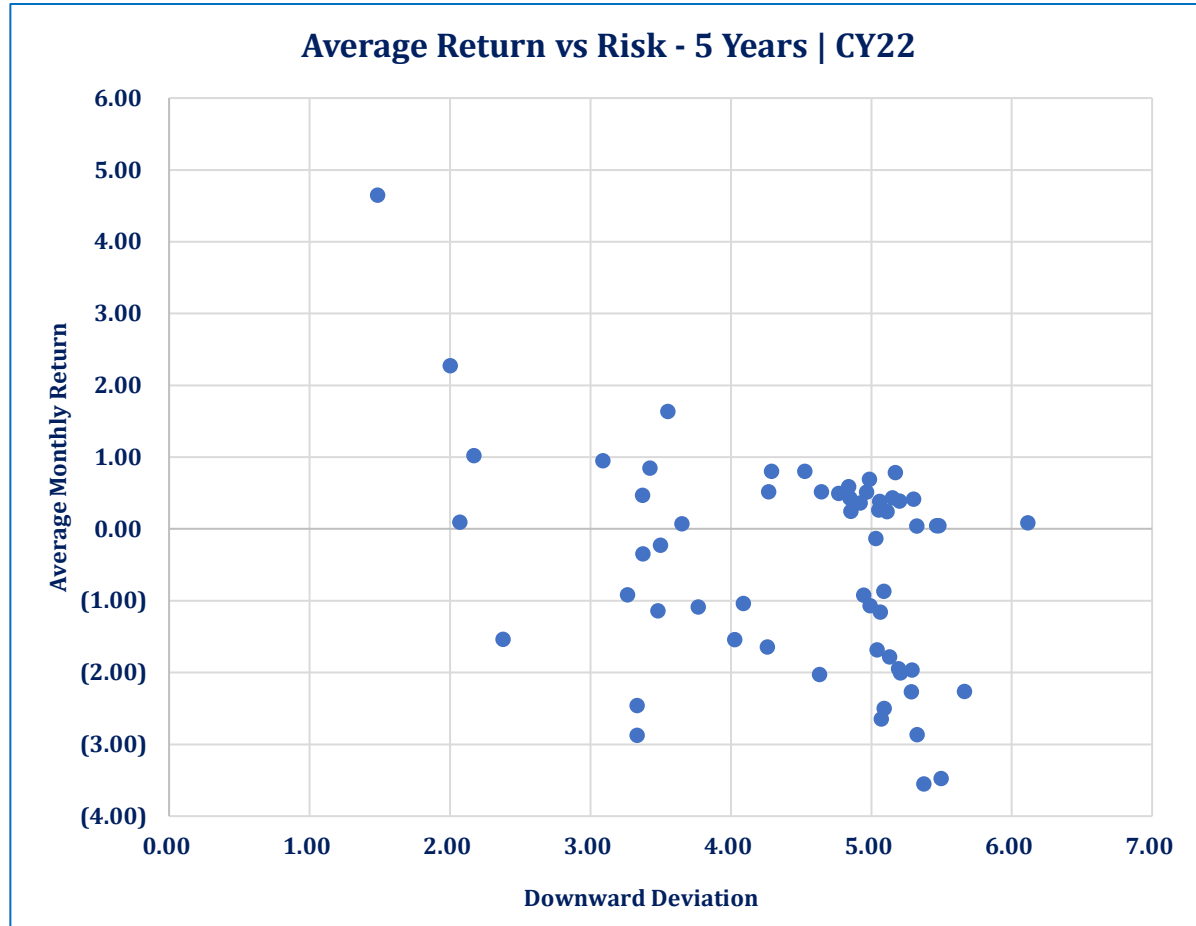
Downside Deviation | 3 Years



- During CY23, majority of 3-year mutual funds fell within a downside deviation range of ~3.0-4.0% (CY22: ~5.0-6.0%).

Mutual Funds

Downside Deviation | 5 Years



- During CY23, majority of 5-year mutual funds fell within a downside deviation range of ~4.25-5.25% (CY22: ~4.5-5.5%).

Mutual Funds

Regulatory Framework

- Mutual funds are regulated by the Securities and Exchange Commission of Pakistan (SECP) with the objective of protection of investors and development of the capital market. SECP implements a transparent and rigorous process before issuing licenses to fund management companies. In addition, the SECP also carries out continuous monitoring of mutual funds.
- The following regulations and rules are applicable to sector players:
 - Non-Banking Finance Companies (Establishment & Regulation) Rules, 2003.
 - Non-Banking Finance Companies & Notified Entities Regulations, 2008.
 - Part VIII of The Companies Ordinance, 1984.
 - Anti Money Laundering and Countering Financing of Terrorism Regulations, 2020.
 - Shariah Governance Regulations 2023.
 - 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

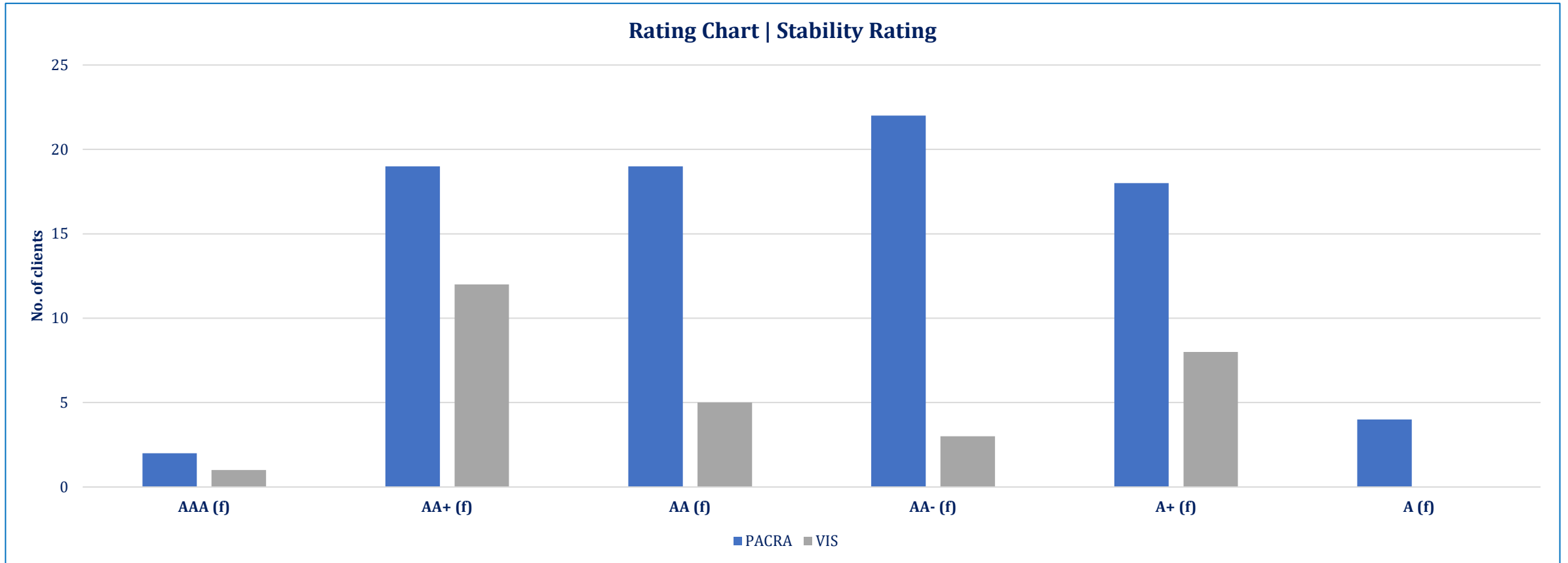
Regulatory Framework | Updates

- **Modified date of applicability of IFRS 9 for financial reporting:** The SECP issued a notification on Sep 29, 2022 for the Non-Banking Finance Companies and Modarabas regarding the modified date for the applicability of International Financial Reporting Standard (IFRS) 9- Financial Instrument in place of International Accounting Standard (IAS) 39 (Financial Instruments: Recognition and Measurement) as reporting period/year ending on or after June 30,2024.
- **Amendments to the Non-Banking Finance Companies (Establishment & Regulations) Rules 2003:** With the approval of the Federal Government, the SECP made amendments to the Non-Banking Finance Companies (Establishment & Regulations) Rules 2003. Business procedures have been streamlined by eliminating the requirements of submitting certified copies of documents like the memorandum, articles of association, and certificate of incorporation, and providing reasons for selecting a business location, statistical data, and additional details. Additionally, directors and chief executive officers are now only required to provide a declaration instead of affidavits verifying accuracy of the information. Moreover, the term "investment company" has been removed from the rules since it no longer exists as a structure.
- **Revisions to the Anti-Money Laundering and Counter Financing of Terrorism (AML/CFT) Regulations 2020:** The SECP made significant revisions to the Anti-Money Laundering and Counter Financing of Terrorism (AML/CFT) Regulations 2020. These amendments aim to broaden the regulatory scope to effectively address financial crimes, combat money laundering, and counter the financing of terrorism (CFT).
- **Introduction of Shariah Governance Regulations 2023:** The SECP introduced the Shariah Governance Regulations 2023, consolidating and replacing the previous Shariah Governance Regulations 2018 and the Shariah Advisors Regulations 2017. The framework is expected to enhance trust in Islamic finance, draw investors, encourage financial stability, and stimulate innovation.

Mutual Funds

Rating Chart | Stability Fund Ratings

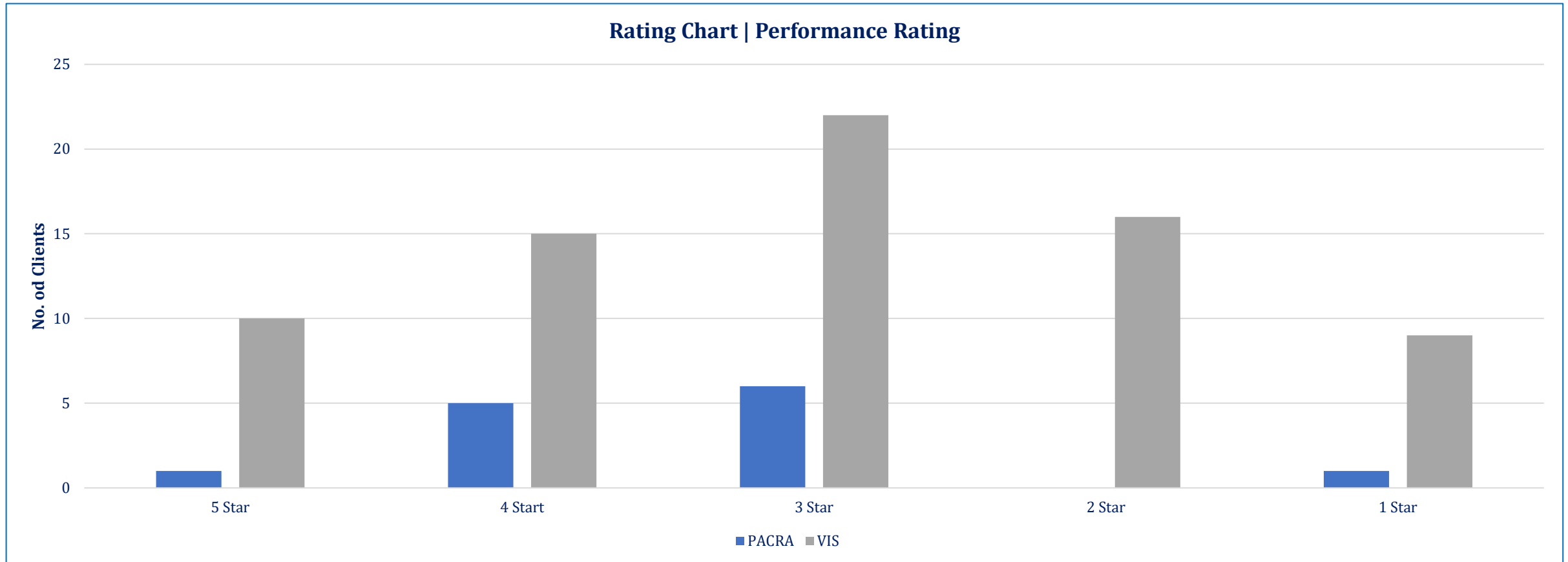
- PACRA rates a total of 97 mutual funds. Of these, PACRA provides stability ratings to 84 mutual funds with a long-term rating in the bandwidth of A (f) to AAA (f), and performance ratings to 13 mutual funds with a long-term rating in the bandwidth of 1- star to 5- star.



Mutual Funds

Rating Chart | Performance Fund Ratings

- PACRA provides performance ratings to 13 mutual funds with a long-term rating in the bandwidth of 1- star to 5- star.



Mutual Funds

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.
- Interest rate volatility remains a key determinant in the sector's performance.

- High concentration in money market funds is likely to shift in the wake of stable interest rate environment.
- Lower market size as % of GDP as compared with banking sector's share, therefore, the sector remains underdeveloped

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

Mutual Funds

Outlook: Stable

- In FY23, Pakistan's economy posted a real GDP contraction of ~0.17% (FY22: ~6.2% growth). Meanwhile, the LSM shrunk by ~10.3% (FY22: ~11.8%), owing majorly to supply-chain disruptions which resulted from SBP-imposed import restrictions, along with the flash floods of Aug'22 and consequent sluggish demand across major industrial sectors of the country. In 1QFY24, however, the real GDP growth stood at ~2.1% (SPLY: ~0.96%). Meanwhile, the SBP estimates the GDP growth at ~2-3% for FY24 while the GoP's projections of real GDP growth rate stands at ~3.5%.
- FY23 was also marred with significantly high levels of inflation with average national CPI recording at ~29.4% (SPLY: 21.3%). The increasing trend has persisted in FY24, national CPI in 7MFY24 was recorded at ~28.8% (SPLY: ~25.4%). During the year, SBP had to take necessary and urgent action to curb resulting mounting inflationary pressures, thereby MPR increased ~825bps YoY and was recorded at ~22.0% as of End-Jun'23 (SPLY: ~13.8%). However, the policy rate has been kept steady at ~22.0% with inflation easing during 7MFY24.
- These negative sentiments reigned in on Pakistan Stock Exchange, whereby the KSE-100 index during FY23 plunged by ~0.2% YoY, whereas volumes registered a decrease of ~23.5% YoY. However, the index posted a positive growth of ~49.5% YoY in the 7MFY24 period (SPLY: ~2.1% YoY dip), whereas volumes posted ~166.5% increase YoY over the same period.
- In CY23, local mutual funds assets under management grew to PKR~2.2bln, generating a growth of ~37.5% (SPLY growth: ~40.0%). The strong performing funds during this timeframe were income funds and money market funds (which posted ~18.2% and ~18.0% average returns, respectively,) while equity funds performed poorly, posting negative average returns. However, post-Aug'23, returns for these improved, clocking in at ~26.3% as of End-Dec'23 (~-3.5% on average during Jan-Aug'23).
- The performance of mutual funds as an investment vehicle remains contingent on Pakistan's economic and political stability. A host of factors have positively contributed to the stability of the sector during 7MFY24. These factors include a successful second IMF review and consequent release of USD~3bln in Jan'24, stable political situation, the PKR holding stable against the USD (End-Jun'23: USD~286.0/PKR; End-Jan'24: USD~279.5/PKR) and reduced inflation levels compared to FY23. The aforementioned reasons are likely to contribute sector's overall better performance.

Mutual Funds

Bibliography

- Pakistan Bureau of Statistics (PBS)
- Pakistan Stock Exchange (PSX)
- State Bank of Pakistan (SBP)
- Federal Board of Revenue (FBR)
- Mutual Funds Association of Pakistan (MUFAP)
- Securities & Exchange Commission of Pakistan (SECP)
- Association of Mutual Funds in India
- International Investment Funds Association (IIFA)
- World Bank (WB)
- International Monetary Fund (IMF)
- PACRA Database

Research Team	Saniya Tauseef Senior Manager saniya.tauseef@pacra.com	Ayesha Wajih Supervising Senior ayesha.wajih@pacra.com	Sabeen Mirza Research Analyst sabeen.mirza@pacra.com
Contact Number: +92 42 35869504			

DISCLAIMER

PACRA has used due care in preparation of this document. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. The information in this document may be copied or otherwise reproduced, in whole or in part, provided the source is duly acknowledged. The presentation should not be relied upon as professional advice.