

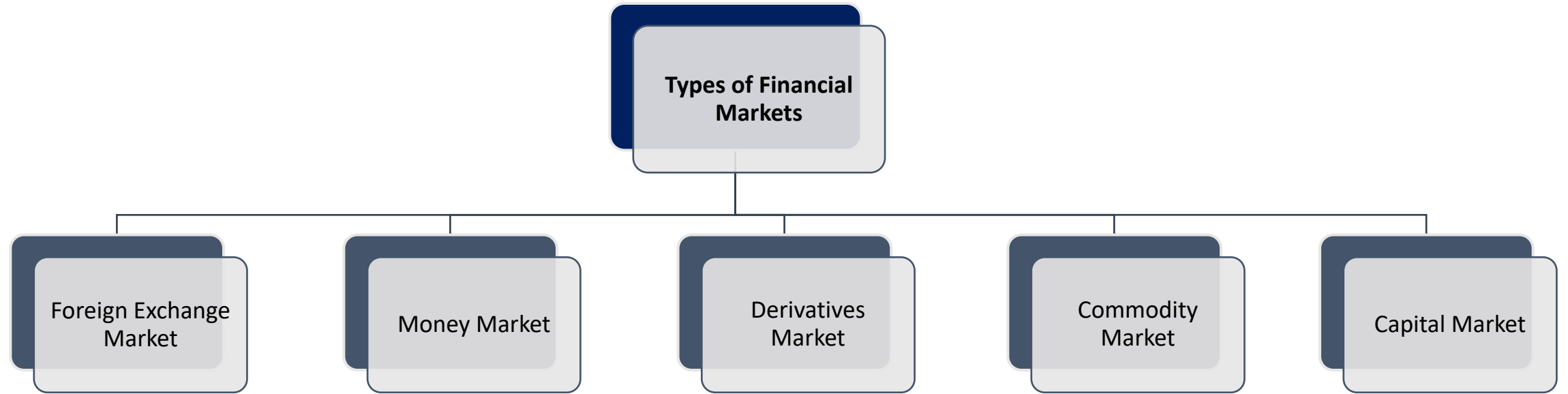


Mutual Funds | Performance

Sector Study

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Types of Financial Markets



Foreign Exchange Market

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.

Money 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.

Derivatives Market

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.

Commodity Market

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 Market

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.

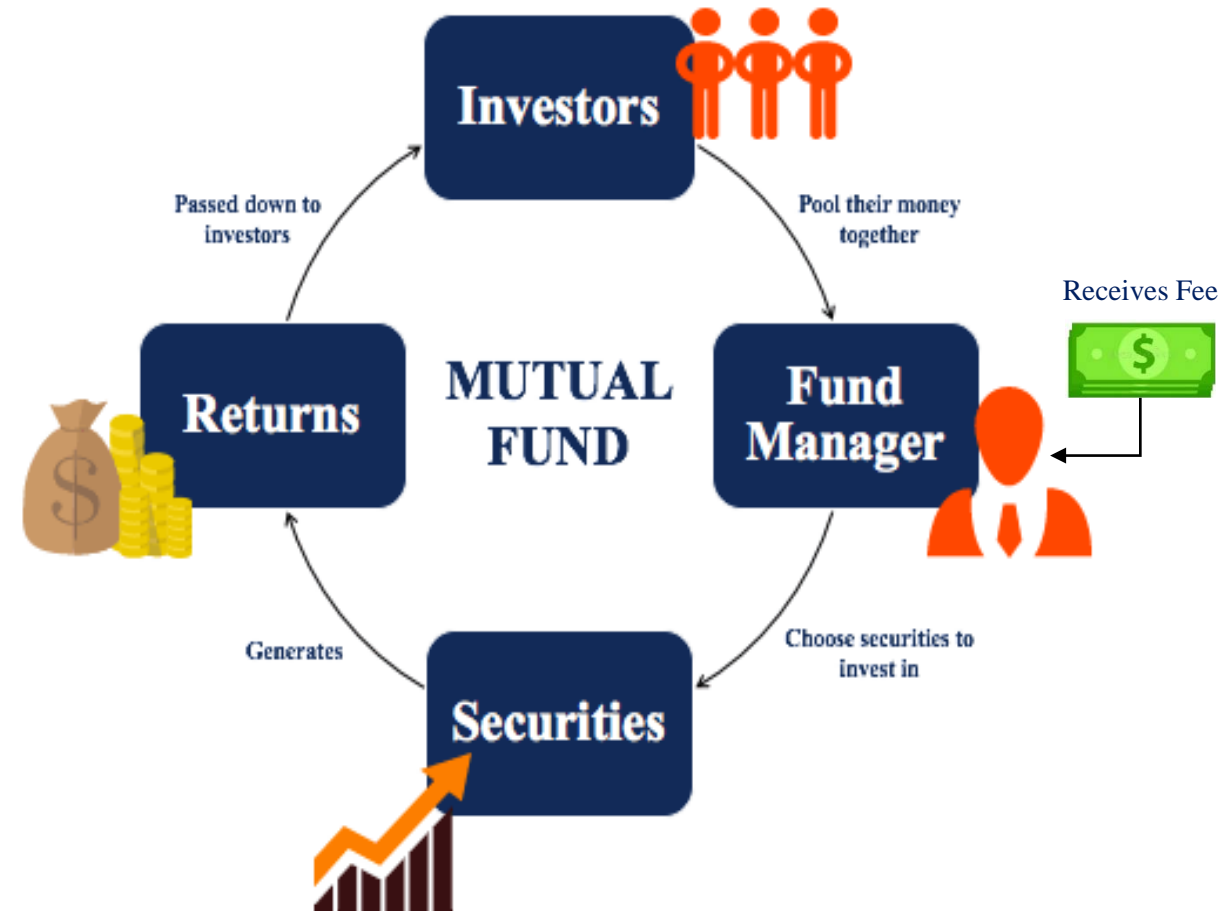
An Overview of Capital Markets

- 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 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 analysis purpose.

Mutual Funds | Introduction

Overview | Mutual Funds

- A mutual fund is a type of financial vehicle that pools the money of investors with a common financial goal. The pooled funds are invested in securities such as stocks, bonds, money market instruments and other similar assets in order to meet predefined investment objectives.
- The income earned through these investments and the capital appreciation realized are shared by the investors in proportion to the number of units of the fund owned by them.
- Mutual funds give access to small or individual investors access to diversified and professionally managed portfolios that match their specific investment needs. In return for their management and investment services, fund managers receive compensation usually known as a fee.
- In addition, mutual funds also offer liquidity as open-ended funds can be redeemed at any point, while close-ended funds can be sold in the secondary market.

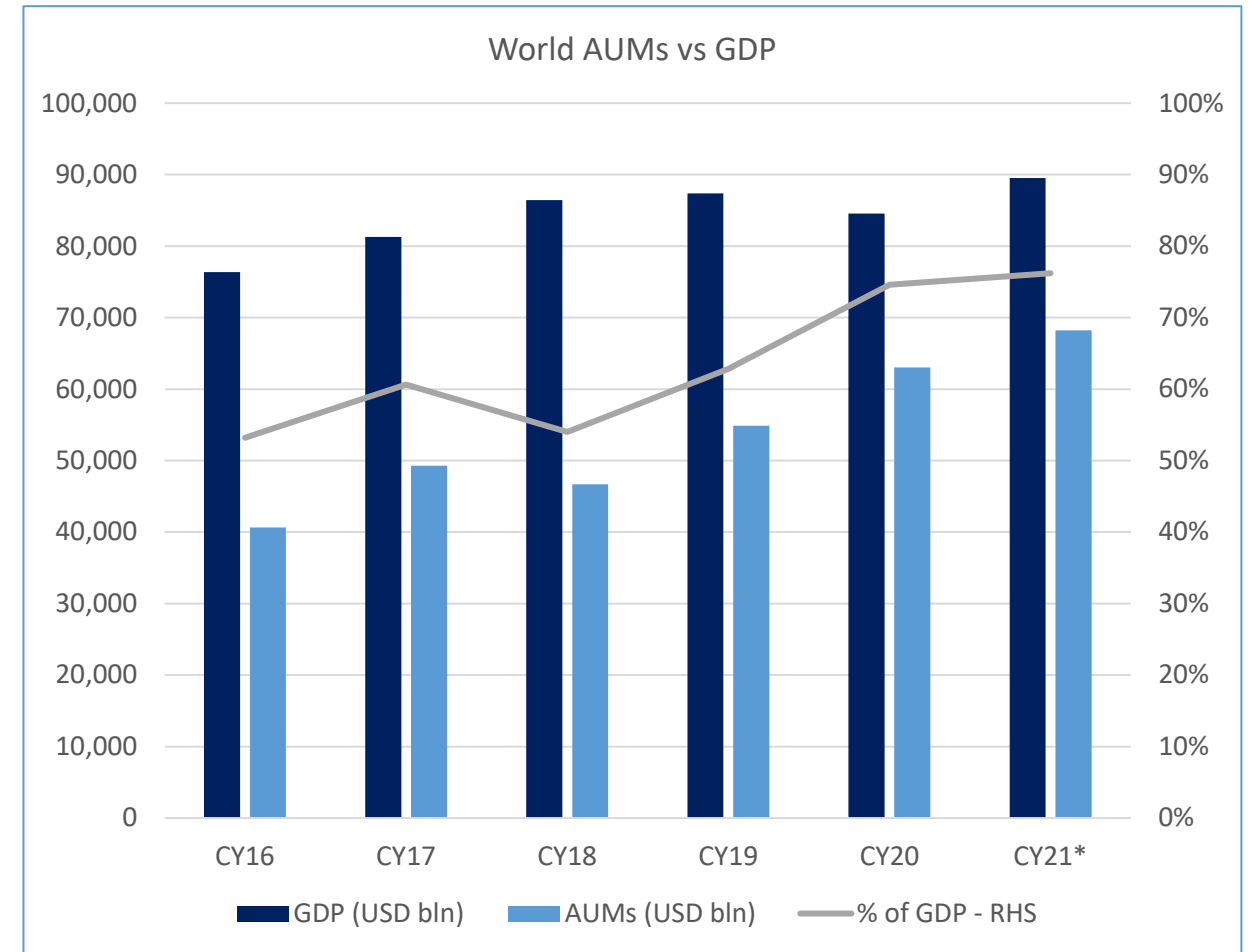


Mutual Funds | Global Industry

World AUMs

Year	CY16	CY17	CY18	CY19	CY20	9MCY21
AUMs (USD bln)	40,644	49,301	46,696	54,877	63,048	68,235
Growth	6.3%	21.3%	-5.3%	17.5%	14.9%	8.2%

- Global Open-End Fund Assets increased by ~8% YoY during 3QCY21 clocking in at USD~68trn (~76% of the global GDP). The global AUMs continued to exhibit recovery from the slowdown caused by the COVID-19 pandemic, as AUMs grew ~8.6% in first half of the calendar year.
- However, emergence of new COVID-19 variant caused uncertainty in global capital markets resulting in ~0.5% decline in AUMs during 3QCY21.
- The growth rate of the AUMs Market has historically remained volatile. Average CAGR for the Open-End Fund Assets is recorded at ~11% from CY16 to 9MCY21.
- 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.



*AUMs are for 9MCY21, CY21 GDP figure is based on estimated IMF global GDP growth rates for the year.

Mutual Funds | Global Industry

Region Wise Asset Allocation & Number of Funds

Worldwide Open-End Funds: Total Net Assets (USD bln)						
Region	CY16	CY17	CY18	CY19	CY20	9MCY21
Americas	21,187	24,899	23,643	28,640	32,325	35,656
Europe	14,112	17,722	16,477	18,812	21,756	22,737
Asia & Pacific	5,198	6,498	6,421	7,248	8,781	9,646
Africa	146	182	155	177	186	196
Total	40,644	49,301	46,696	54,877	63,048	68,235

Worldwide Open-End Number of Funds						
Region	CY16	CY17	CY18	CY19	CY20	9MCY21
Americas	25,698	26,570	27,714	28,733	30,298	31,672
Europe	53,513	54,558	56,001	56,955	57,753	58,526
Asia & Pacific	29,396	30,196	32,996	35,260	35,974	37,332
Africa	1,520	1,626	1,567	1,610	1,686	1,685
Total	110,127	112,950	118,278	122,558	125,711	129,215

Worldwide Open-End Funds: Total Net Assets (%)						
Region	CY16	CY17	CY18	CY19	CY20	9MCY21
Americas	52%	51%	51%	52%	51%	52%
Europe	35%	36%	35%	34%	35%	33%
Asia & Pacific	13%	13%	14%	13%	14%	14%
Africa	0.4%	0.4%	0.3%	0.3%	0.3%	0.3%
Total	100%	100%	100%	100%	100%	100%

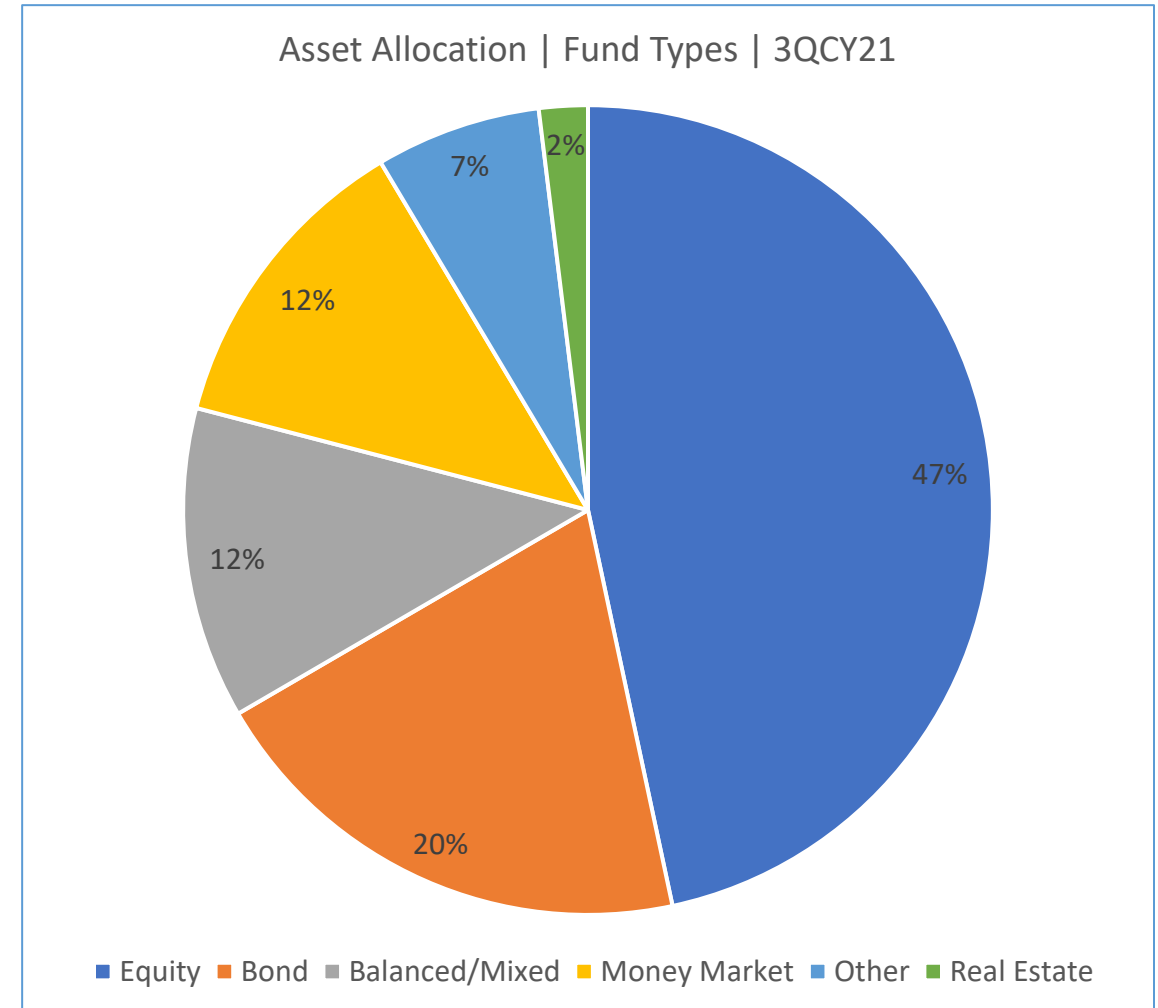
Worldwide Open-End Number of Funds						
Region	CY16	CY17	CY18	CY19	CY20	9MCY21
Americas	23%	24%	23%	23%	24%	25%
Europe	49%	48%	47%	46%	46%	45%
Asia & Pacific	27%	27%	28%	29%	29%	29%
Africa	1.4%	1.4%	1.3%	1.3%	1.3%	1.3%
Total	100%	100%	100%	100%	100%	100%



Mutual Funds | Global Industry

Asset Allocation by Fund Type

- Global Open-End Fund Market is dominated by Long term Investments.
- Equity funds account for ~47% of the Global Open-End Fund Assets followed by Bonds (~20%). Meanwhile, Money Market Funds and Balanced/Mixed Funds both account for ~12% of Global AUMs.
- During 9MCY21, Global Net sales of the Open-End Fund Market was recorded at USD~2.8trn (9MCY20: USD~1.9trn, CY20: USD~2.6trn), an increase of ~49% on YoY basis.
- In terms of Asset Allocation, the highest increase in Global Open-End Funds Assets was witnessed in Equity Funds which grew by ~12% during 9MCY21. These were followed by an increase of ~9% YoY in Balanced/Mixed Funds during 9MCY21.



Mutual Funds | Global Industry

Regional Market | Asia & Pacific AUMs

9MCY21										
USD bln	China	Australia	Japan	Korea	India	Taiwan	New Zealand	Philipines	Pakistan	TOTAL
AUMs	3,257	2,541	2,448	631	483	165	107	8	6	9,646
GDP	16,860	1,610	5,100	1,820	2,950	786	248	386	280	30,039
% of AUMs	19%	158%	48%	35%	16%	21%	43%	2%	2%	32%

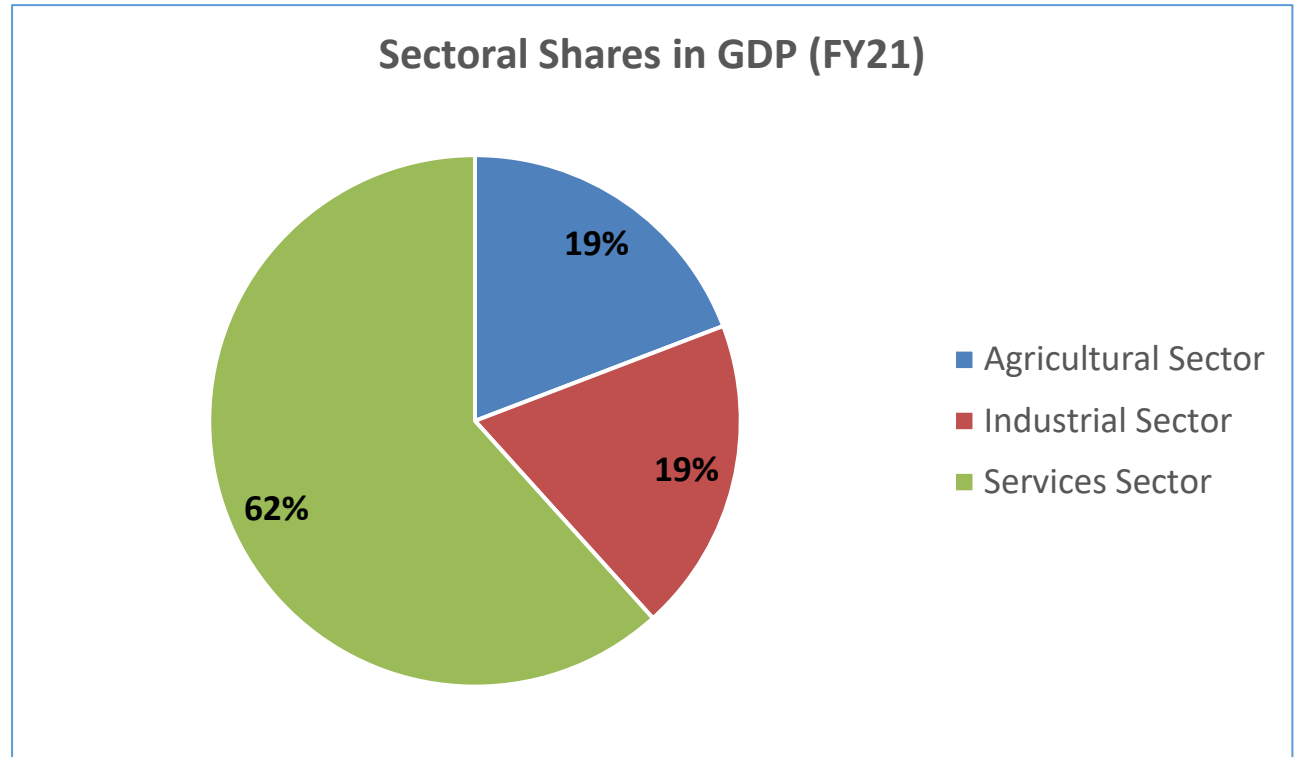
- Asia & Pacific accounts for ~14% of the Global Open-End Fund Assets and ~29% of the Number of Global Open-End Funds (9MCY21).
- In terms of GDP, Asia & Pacific makes up ~30% of the Global GDP.
- China, Australia and Japan are the largest economies with reference to AUMs Market in the Asia & Pacific. India also has relatively low Open-End Fund Assets as a percentage of economy (USD~483bln, ~16% of its GDP).
- Pakistan has the lowest Open-End Fund Asset base among its regional players in Asia & Pacific, amounting to USD~6bln and ~2% of its GDP.

Assets Under Management Category Wise – Sep 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	68,362	15,821	63,517	9,857	45,276	4,583	207,417
Individuals	11,982	63,570	37,644	38,174	2,543	6,347	160,259
Retail	1,595	94,659	3,862	12,103	644	5,006	117,869
Banks/FIs	2,661	111	5,517	24	422	43	8,777
Foreign Institutional Investors	21	431	125	65	13	0	655
Total	84,621	174,592	110,665	60,222	48,898	15,979	494,976

Mutual Funds | Local Industry

GDP Break Up

- Pakistan’s real GDP grew by 3.9% in FY21 and stood at PKR~13,036bln as compared to PKR~12,532bln in FY20.
- 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.



FY21 Sector Wise GDP Break-Up (%)	
Crops	6.87
Livestock	11.53
Forestry	0.40
Fishing	0.39
Total Agricultural Sector	19.19
Mining and Quarrying	2.38
Large Scale Manufacturing	9.73
Small Scale Manufacturing	2.12
Slaughtering	0.94
Electricity Generation + Distribution & Gas Distribution	1.35
Construction	2.61
Total Industrial Sector	19.13
Wholesale & Retail Trade	18.82
Transport, Storage & Communication	12.18
Finance & Insurance	3.72
Housing Services	6.97
General Government Services	8.21
Other Private Services	11.77
Total Services Sector	61.68

Note: GDP value is at constant basic prices of 2005-06

Macro Economic Indicators

	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	6MFY22
Average Inflation Rate (CPI)	11.90%	11.00%	7.40%	8.60%	4.50%	2.90%	4.20%	3.90%	7.30%	10.70%	8.90%	9.80%
Average KIBOR	13.45%	12.33%	9.84%	9.88%	8.85%	6.49%	6.11%	6.39%	10.43%	11.95%	7.43%	8.69%
Monetary Policy Rate (MPR)	13.70%	12.41%	9.91%	9.75%	8.75%	6.04%	5.75%	5.95%	9.69%	11.75%	7.00%	7.62%
PKRV	13.00%	11.91%	9.63%	9.75%	8.67%	6.34%	5.95%	6.26%	10.20%	11.79%	7.28%	8.57%
Average Exchange Rate (PKR/USD)	86.31	89.24	96.83	102.84	101.47	104.37	104.78	110.11	136.45	158.40	160.46	169.32
(USD mln)	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	6MFY22
Current Account Balance	214	-4,658	-2,496	-3,130	-2,815	-4,961	-12,270	-19,195	-13,434	-2,970	-1,852	-9,092
Exports	25,369	24,718	24,802	25,078	24,090	21,972	22,003	24,768	24,257	22,536	25,630	15,274
Imports	35,796	40,370	40,157	41,668	41,357	41,118	48,001	55,671	51,869	43,645	53,785	36,467
Trade Balance	-10,427	-15,652	-15,355	-16,590	-17,267	-19,146	-25,998	-30,903	-27,612	-21,109	-28,155	-21,193
Foreign Exchange Reserve	18,244	15,289	11,020	14,141	18,699	23,099	21,403	16,384	14,482	18,886	24,398	24,019

*

Mutual Funds | Local Industry

Macro Economic Indicators | Monthly

	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21
Average Inflation Rate (CPI)	5.70%	8.70%	9.10%	11.10%	10.90%	9.70%	8.40%	8.40%	9.00%	9.20%	11.50%	12.30%
Average KIBOR	7.36%	7.57%	7.80%	7.78%	7.68%	7.70%	7.63%	7.57%	7.80%	8.45%	9.37%	11.31%
Monetary Policy Rate (MPR)	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.25%	7.25%	7.82%	9.38%
PKRV	7.23%	7.43%	7.65%	7.60%	7.55%	7.54%	7.49%	7.42%	7.68%	8.38%	9.31%	11.11%
Average Exchange Rate (PKR/USD)	160.4	159.3	156.1	153.3	153.6	156.5	159.9	164.5	168.5	172.0	173.6	177.5
(USD mln)	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21
Current Account Balance	-210	-31	-33	-200	-650	-1,644	-919	-1,473	-1,134	-1,740	-1,894	-1,932
Exports	2,097	2,176	2,610	2,295	2,129	2,497	2,251	2,348	2,634	2,381	2,736	2,924
Imports	4,433	4,501	5,205	4,969	4,959	6,322	5,399	5,998	6,053	6,028	6,451	6,538
Trade Balance	-2,336	-2,325	-2,595	-2,674	-2,830	-3,825	-3,148	-3,650	-3,419	-3,647	-3,715	-3,614
Foreign Exchange Reserve	20,149	20,105	20,604	22,690	23,273	24,398	24,777	27,068	25,983	23,829	22,329	24,019

Mutual Funds | Local Industry

KSE-100 Returns | Monthly & Annual

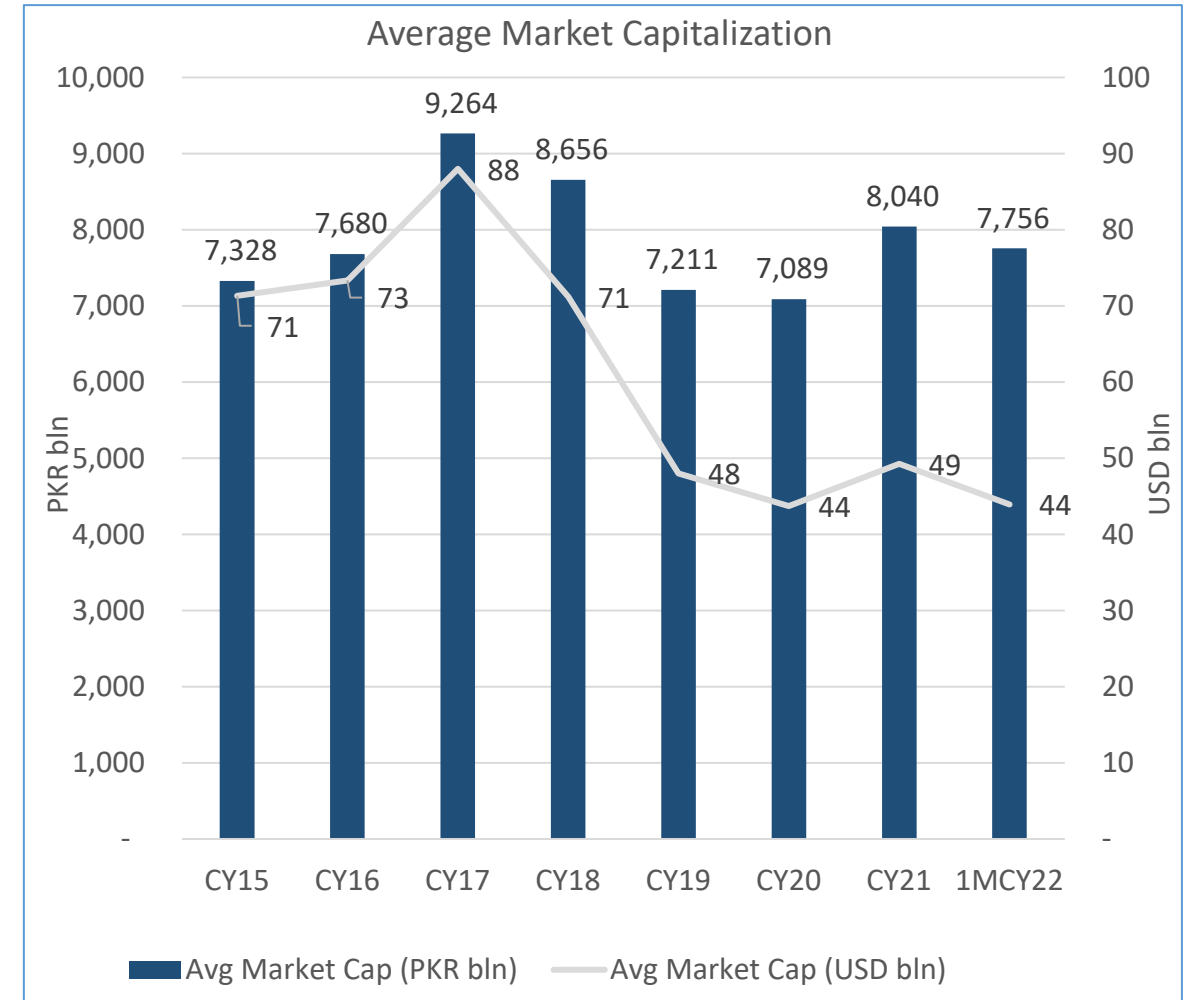
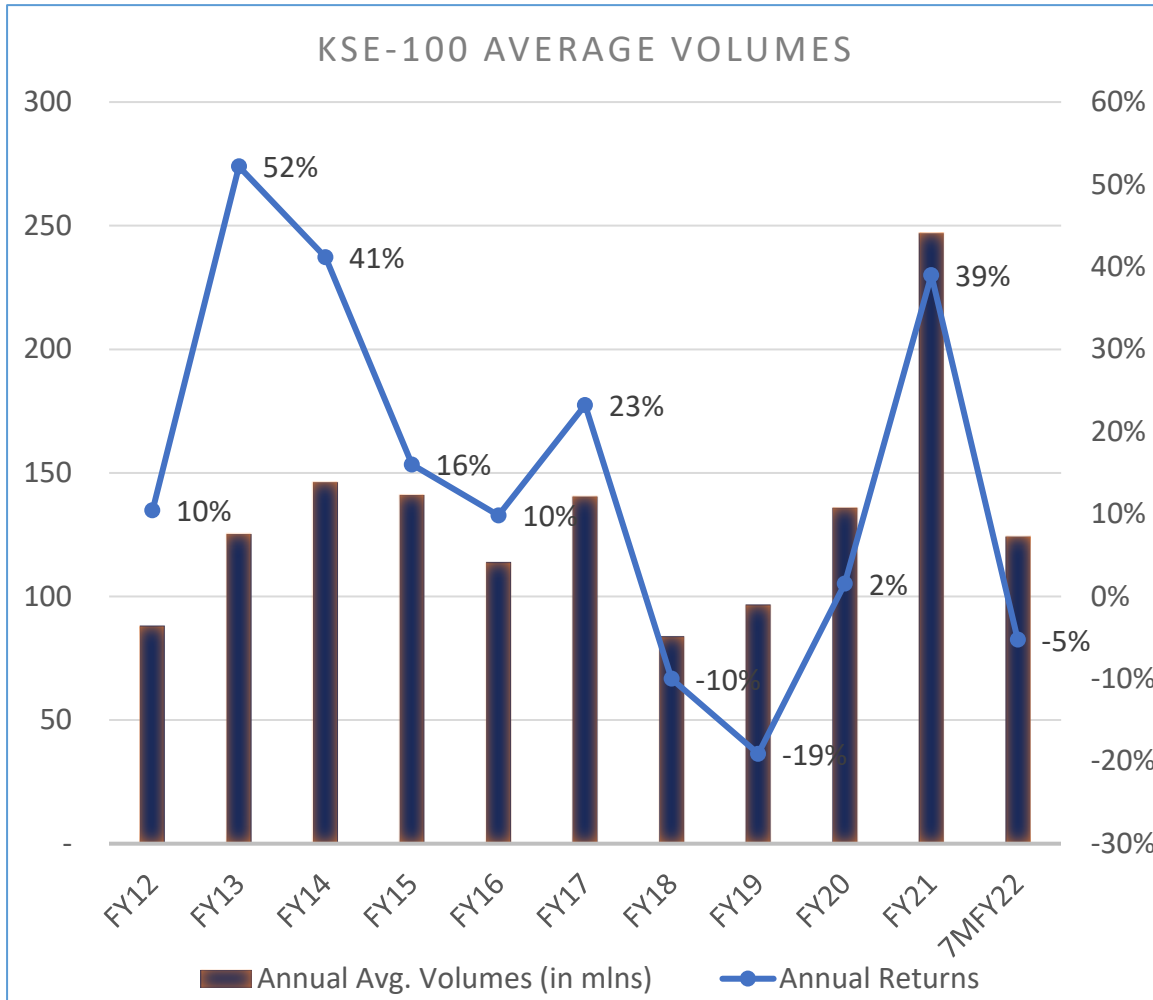
KSE 100 Index	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	7MFY22
Index Value	12,496	13,801	21,006	29,653	34,399	37,784	46,565	41,911	33,902	34,422	47,356	45,375
Returns (%)	29.0%	10.4%	52.2%	41.2%	16.0%	9.8%	23.2%	-10.0%	-19.1%	1.5%	37.6%	-4.2%

KSE 100 Index	CY11	CY12	CY13	CY14	CY15	CY16	CY17	CY18	CY19	CY20	CY21	1MCY22
Index Value	11,348	16,905	25,261	32,131	32,816	47,807	40,471	37,067	40,735	43,755	44,596	45,375
Returns (%)	-4.0%	49.0%	49.4%	27.2%	2.1%	45.7%	-15.3%	-8.4%	9.9%	7.4%	1.9%	1.7%

KSE 100 Index	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21	Jan-22
Index Value	45,865	44,588	44,262	47,896	47,356	47,055	47,420	44,900	46,219	45,072	44,596	45,375
Returns (%)	-1.1%	-2.8%	-0.7%	8.2%	-1.1%	-0.6%	0.8%	-5.3%	2.9%	-2.5%	-1.1%	1.7%

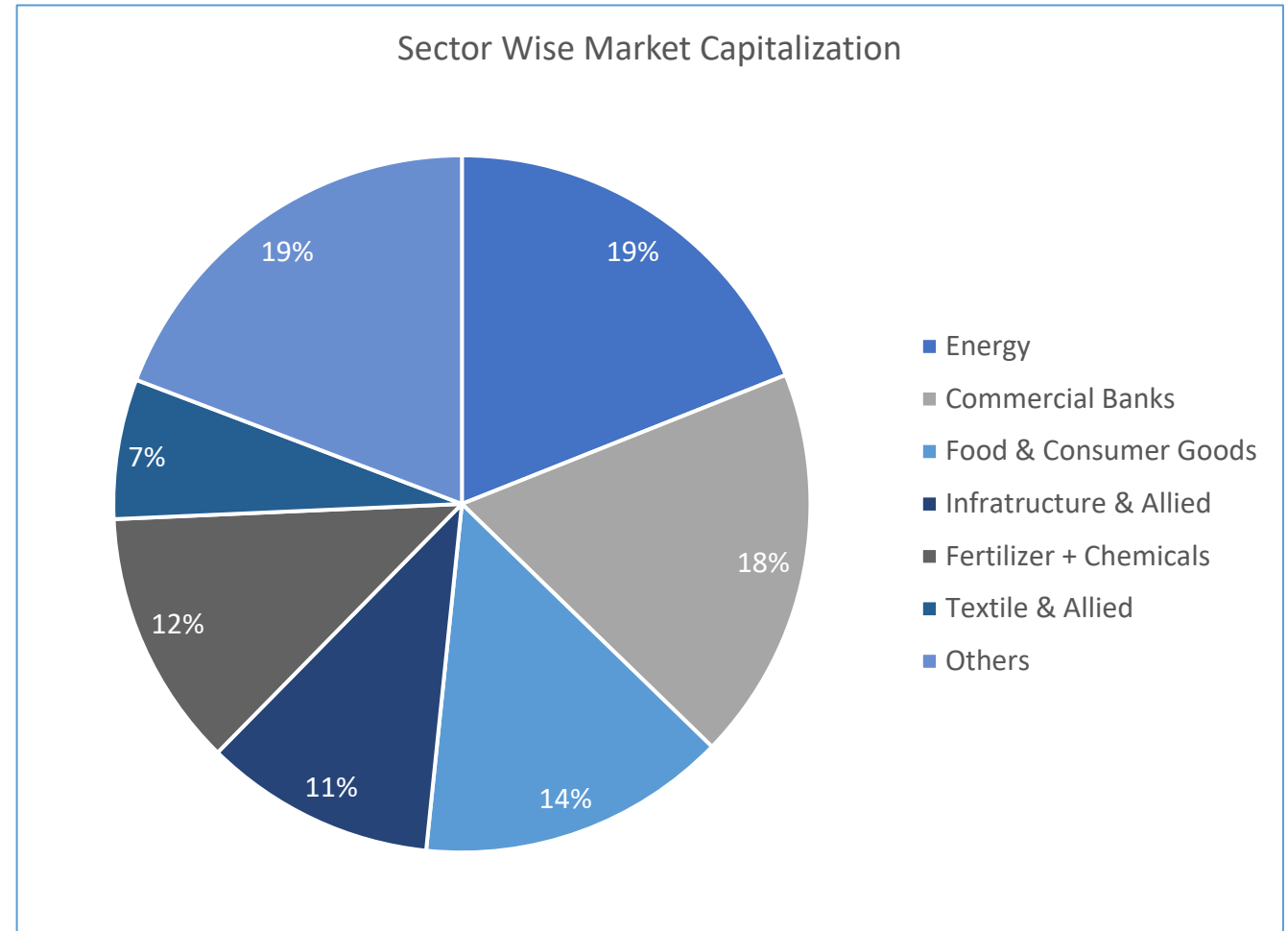
Note: Index Values are the closing values on the last trading day of each month/year

Market Volumes & Capitalization



Market Capitalization | Sectoral Composition

- This data is based on market capitalization of PKR~7.6trn as on 3rd Jan, 2022.
- Energy is the largest sector with a market capitalization of PKR~1,449bln amounting to ~19.0% of the total market capitalization. The energy sector comprises of Oil & Gas Exploration & Production, Oil & Gas Marketing, Power Generation & Distribution and Refineries.
- The second largest sector is Commercial Banks with a market capitalization of PKR~1,397bln which amounts to ~18.3% of the total market capitalization.



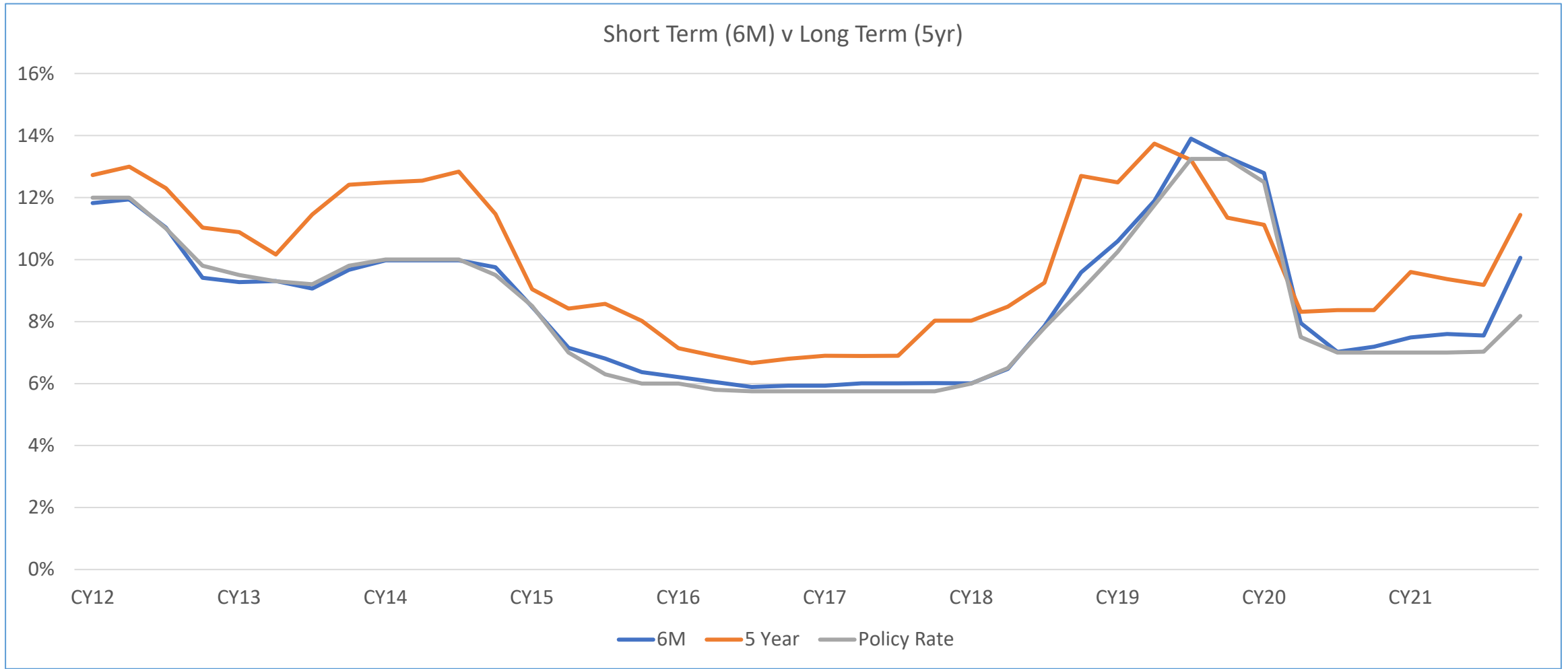
T-Bills & PIBs

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

CY20 T-Bills Auction	Average Yield		
Total Realized Amount (PKR bln)	3M	6M	12M
9,536	8.72%	8.65%	8.63%

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

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



Types of Mutual Funds

- Open-Ended Mutual Funds:** These are mutual funds which continuously create new units and redeem issued units on demand. Units of the fund can be bought or redeemed at the prevailing Net Asset Value (NAV).
- Close-Ended Mutual Funds:** These funds have a fixed number of shares like a public company and are floated through an IPO. Once issued, they can be bought and sold in the secondary market at market rates. There are currently no close-ended mutual funds in Pakistan.
- Voluntary Pension Funds:** It is a personalized, defined, savings-cum-investment vehicle for providing comprehensive framework for life after retirement. It is a system established by an employer to expedite and arrange the investment of employees' retirement funds
- High level of returns along with significant new investment in mutual funds led to a large increase in Assets Under Management (AUMs) during 2HCY20.

Type of Fund (PKR bln) As at	Dec'16	Dec'17	Dec'18	Dec'19	Dec'20	Dec'21
Open-end	563	537	552	651	920	1,088
Close-end	2	2	1	-	-	-
Voluntary Pension	22	24	26	30	35	39
AUMs	587	563	579	681	955	1,127

Type of Fund (PKR bln) As at	Jun'16	Jun'17	Jun'18	Jun'19	Jun'20	Jun'21
Open-end	443	581	580	513	742	1,016
Close-end	2	2	2	1	-	-
Voluntary Pension	19	25	26	26	31	38
AUMs	464	608	608	540	773	1,054

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 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 | Local Industry

Mutual Funds | Categories

- **Income Scheme:** These funds focus on providing investors with a steady stream of fixed income. They invest in short term and long term debt instruments like TFCs, government securities like T-bills/ PIBs, or preference shares.
- **Aggressive Fixed Income Scheme:** The aim of aggressive income fund is to generate a high return by investing in fixed income securities while taking exposure in medium to lower quality of assets also.
- **Commodity Scheme:** These schemes enable small investors to take advantage of gains in commodities such as gold through pooled investments. They invest at least 70% of their assets in commodity futures contracts, which include both cash-settled and deliverable contracts.
- The tables below show the number of funds in the categories that are rated by PACRA.

Categories	Dec'18		Dec'19		Dec'20		Dec'21	
	Count	%	Count	%	Count	%	Count	%
Equity	27	25%	27	19%	27	16%	27	10%
Islamic Equity	17	11%	18	9%	19	7%	19	7%
Asset Allocation	13	2%	14	1%	15	2%	14	5%
Islamic Asset Allocation	13	5%	11	2%	12	2%	12	4%
Balanced	5	1%	5	1%	5	1%	4	1%
Others	150	56%	193	68%	195	72%	206	73%
Total	225	100%	268	100%	273	100%	282	100%

Mutual Funds Industry - Assets Under Management							
(Open End & VPS, excluding Fund of Funds) - PKR bln							
S.No.	Asset Management Company	Dec-21		Jun-21	Dec-20	Jun-20	Dec-19
		Market Share	AUMs	AUMs	AUMs	AUMs	AUMs
1	Al-Meezan Investment Management Limited	15%	173	189	163	152	123
2	NBP Fund Management Limited	15%	169	168	163	127	112
3	UBL Fund Managers Limited	10%	116	102	91	78	63
4	MCB-Arif Habib Savings and Investments Limited	10%	110	98	83	66	58
5	HBL Asset Management Limited	8%	94	72	78	58	47
6	ABL Asset Management Limited	8%	89	79	67	59	53
7	National Investment Trust Limited	8%	88	90	85	69	75
8	Faysal Asset Management Limited	7%	76	62	47	30	16
9	Alfalah GHP Investment Management Limited	5%	60	55	50	40	42
10	Atlas Asset Management Limited	5%	52	50	40	30	31
11	Al Habib Asset Management Limited	4%	40	33	26	14	7
12	JS Investment Limited	2%	23	17	24	19	21
13	Lakson Investments Limited	2%	20	23	22	19	21
14	Pak Oman Asset Management	1%	8	6	7	4	4
15	AKD Investment Management Limited	1%	7	9	7	5	5
16	AWT Investment Management Limited	0.1%	2	2	2	3	3
17	786 Investments Limited	0.1%	1	1	1	1	1
18	First Capital Investments Limited	0.0%	0.1	0.1	0.1	0.1	0.1
19	BMA Asset Management Company Limited	0.0%	0.0	0.4	0.4	0.2	0.3
Total:		100%	1,127	1,054	955	773	681

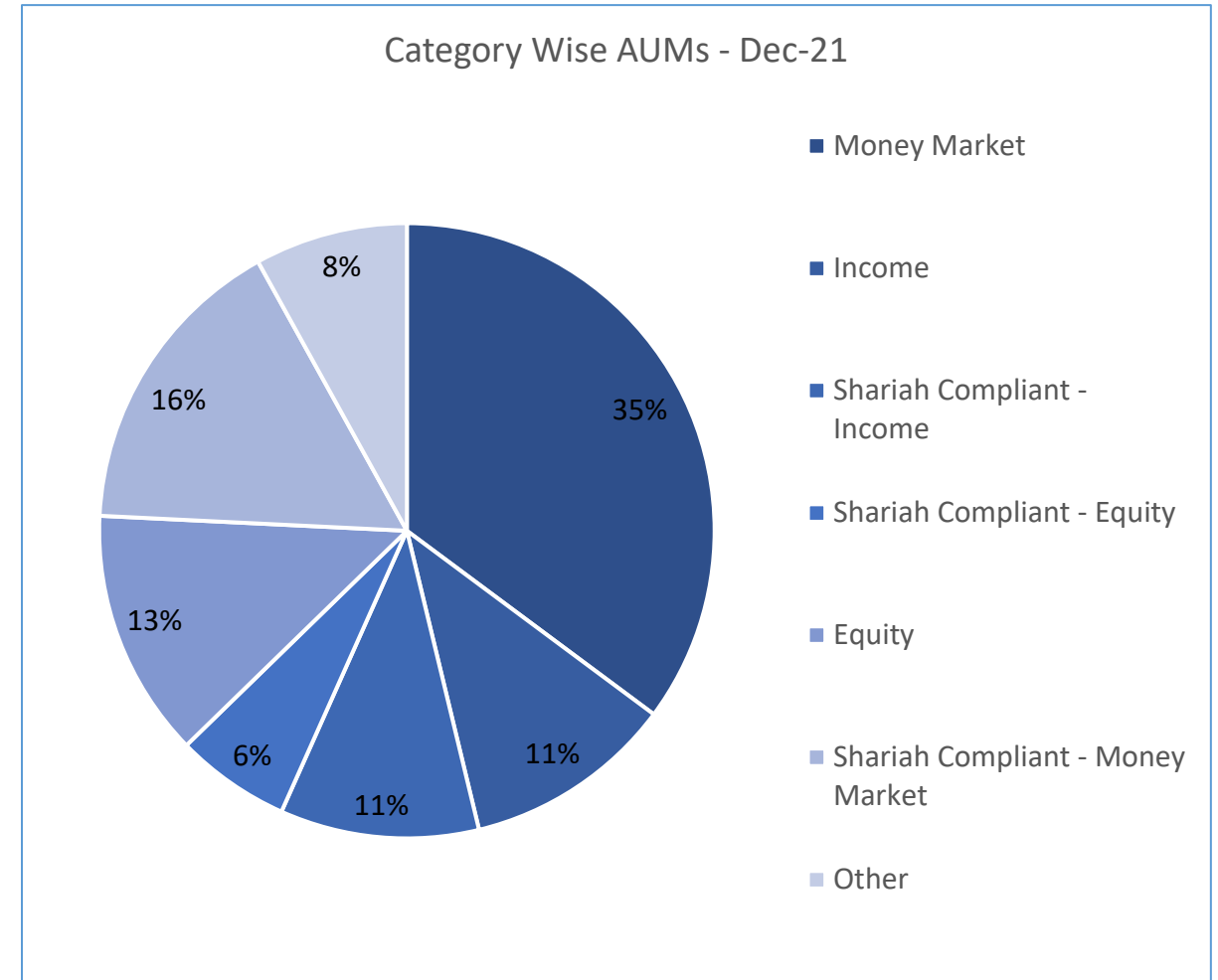
Net Sales

- Sales of mutual funds during CY21 stood at PKR~2,344bln while redemptions during the year clocked in at PKR~2,211bln.
- As a result, Net Sales of mutual funds amounted to PKR~132bln during CY21, contributing to the significant growth in AUMs in the same period.
- The Money Market category experienced the highest level of net sales standing at PKR~94bln and accounting for ~71% of total net sales.
- Meanwhile, the Equity and Shariah Compliant Income segments witnessed a higher level of redemptions as compared to sales.

Net Sales (PKR mln)	CY21		
	Sales	Redemptions	Net Sales
Open End			
Money Market	924,859	831,230	93,628
Income	269,087	252,698	16,390
Equity	73,959	76,589	(2,630)
Shariah Compliant Money Market	608,823	593,374	15,449
Shariah Compliant Income	248,012	252,388	(4,376)
Shariah Compliant Equity	100,151	99,544	607
Other	103,377	92,323	11,054
VPS	15,714	13,630	2,084
ETF	159	77	82
Total	2,344,143	2,211,854	132,289

Category Wise AUM Break Up

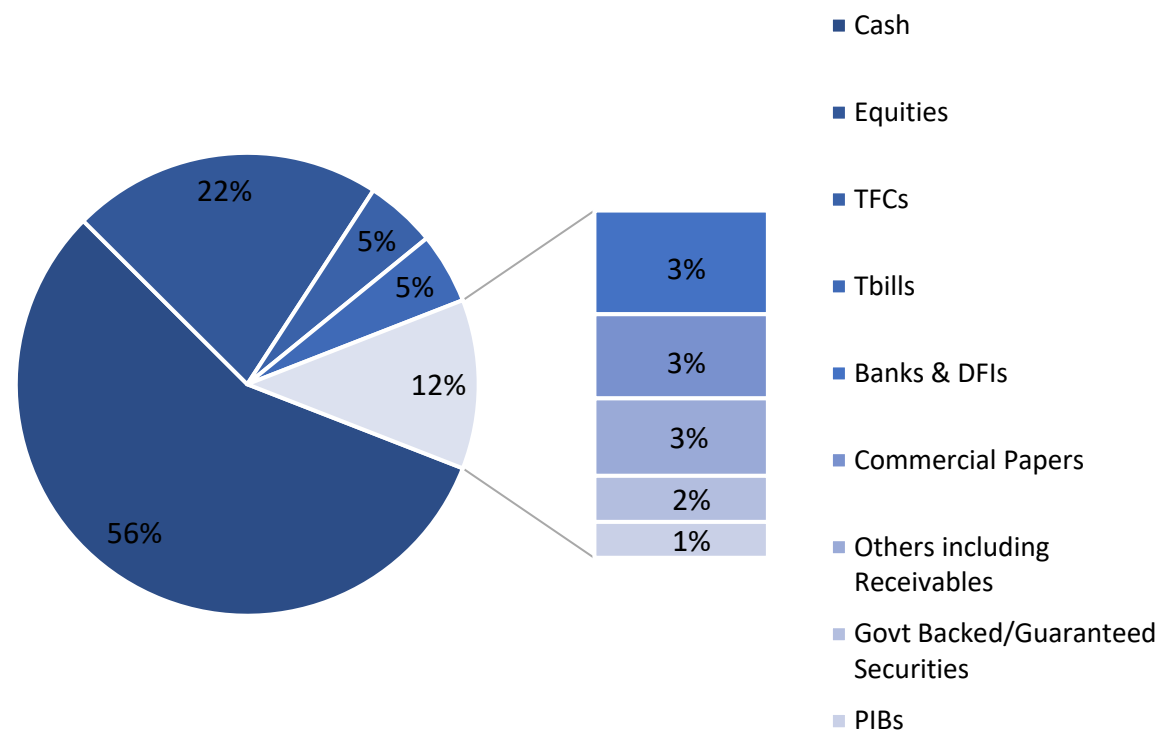
Break Up of Assets Under Management (Dec-21)	
Category	AUMs (PKR bln)
Money Market	394
Shariah Compliant Money Market	181
Equity	147
Income	124
Shariah Compliant Income	117
Shariah Compliant Equity	68
Other	96
Total AUMs	1,127



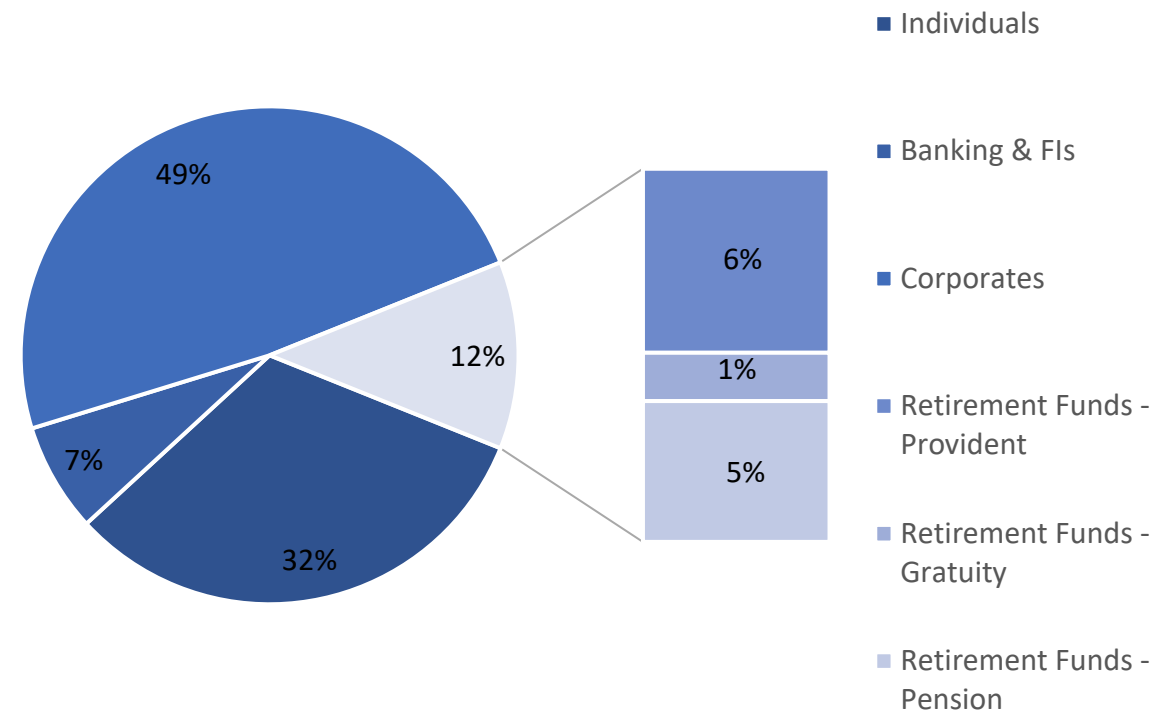
Mutual Funds | Local Industry

Asset Allocation

Asset Allocation (Dec-21)



Unit Holder Pattern (Dec-21)



Industry Returns

Weighted Average Return of Industry

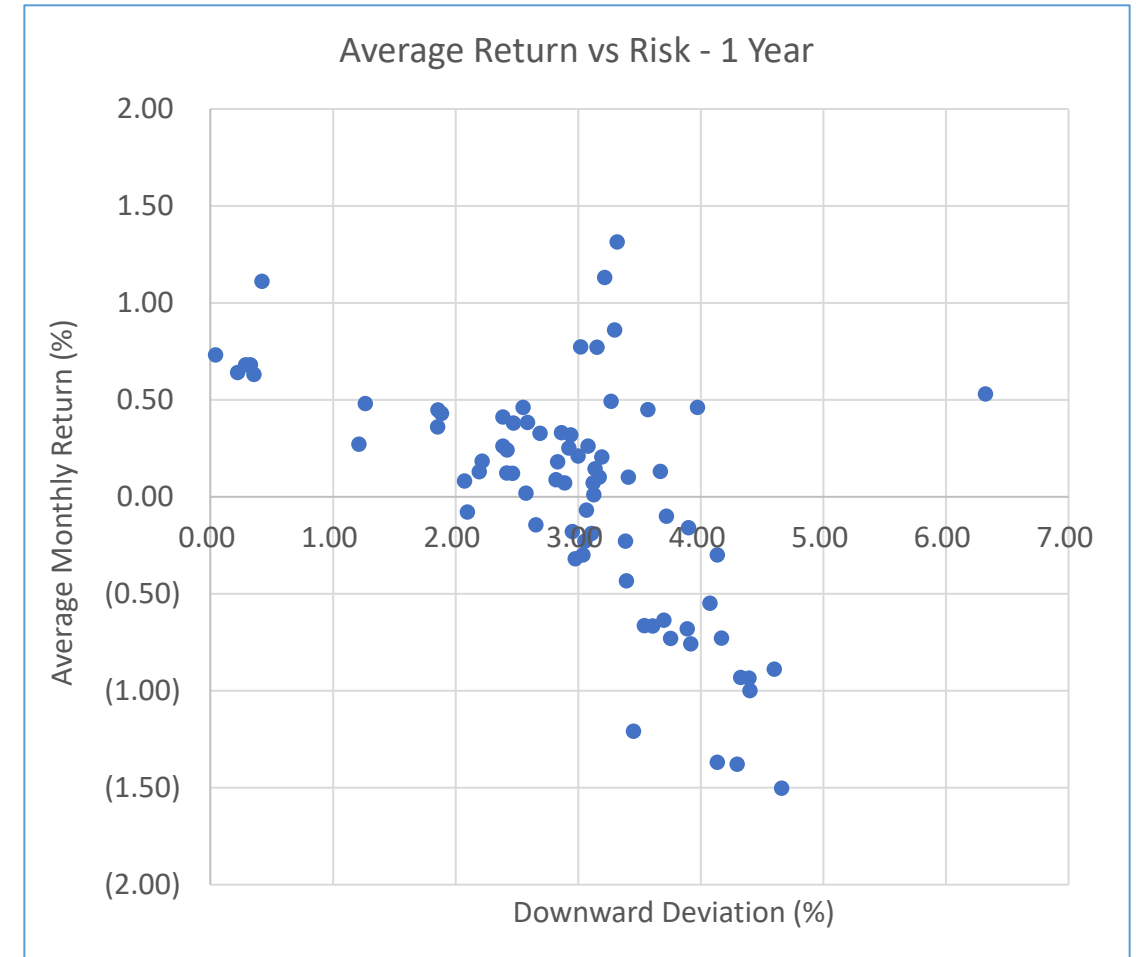
Category	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21
Money Market	6.42%	5.43%	5.62%	7.15%	6.67%	7.20%	7.22%	9.43%	4.46%	6.23%	7.74%	10.46%
Shariah Compliant Money Market	5.95%	5.90%	5.39%	6.37%	6.55%	6.97%	6.59%	8.56%	6.45%	6.39%	7.27%	9.44%
Income	6.00%	5.90%	6.41%	7.38%	6.46%	7.17%	7.52%	11.55%	5.97%	7.16%	6.68%	9.19%
Shariah Compliant Income	5.93%	6.27%	5.82%	6.06%	6.16%	6.26%	5.51%	10.44%	7.62%	5.88%	5.48%	8.70%
Shariah Compliant Equity	5.97%	3.72%	-2.79%	-1.30%	9.86%	0.08%	0.20%	2.99%	-5.94%	3.43%	-1.88%	-2.64%
Equity	16.62%	12.59%	9.89%	11.07%	19.52%	13.96%	-0.46%	0.81%	-4.62%	0.96%	-3.49%	-3.36%



Mutual Funds | Local Industry

Downside Deviation – 1 Year

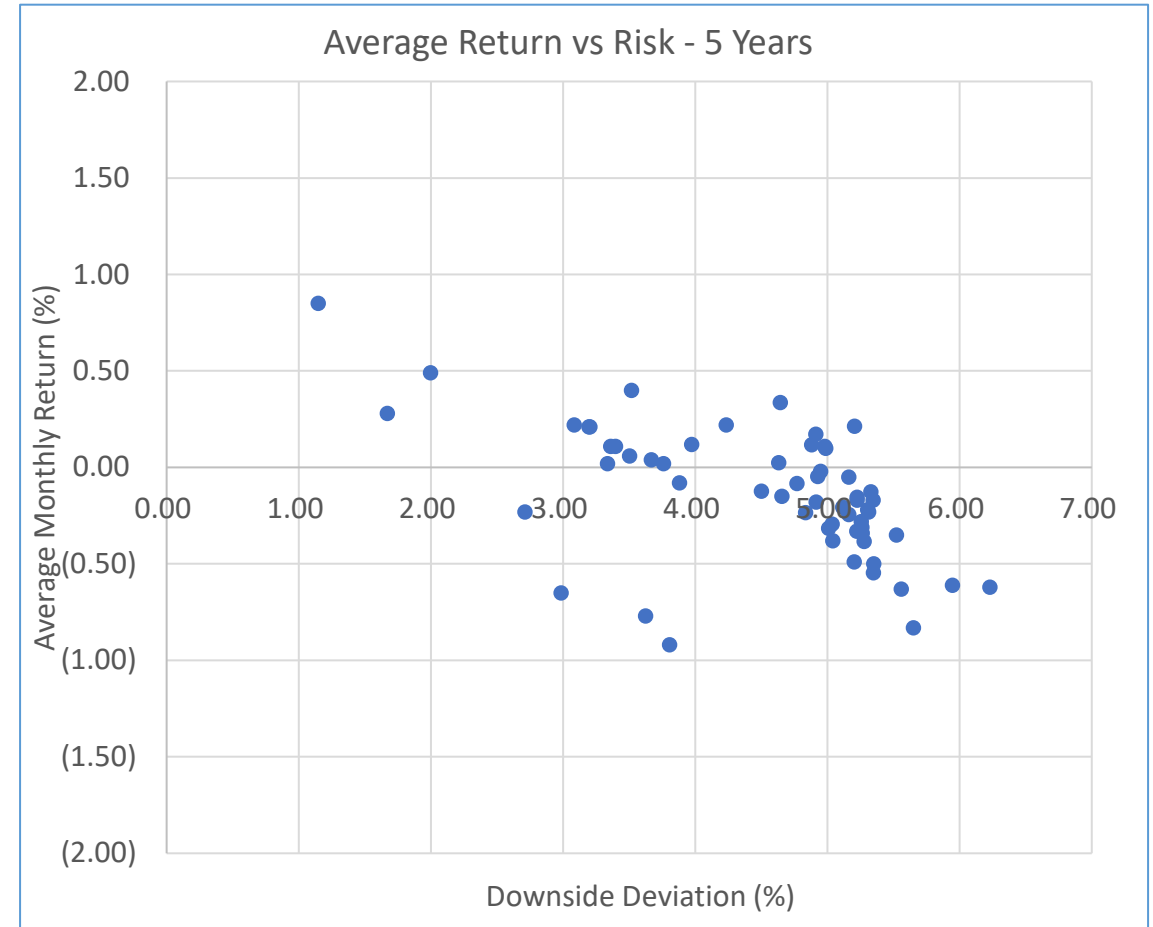
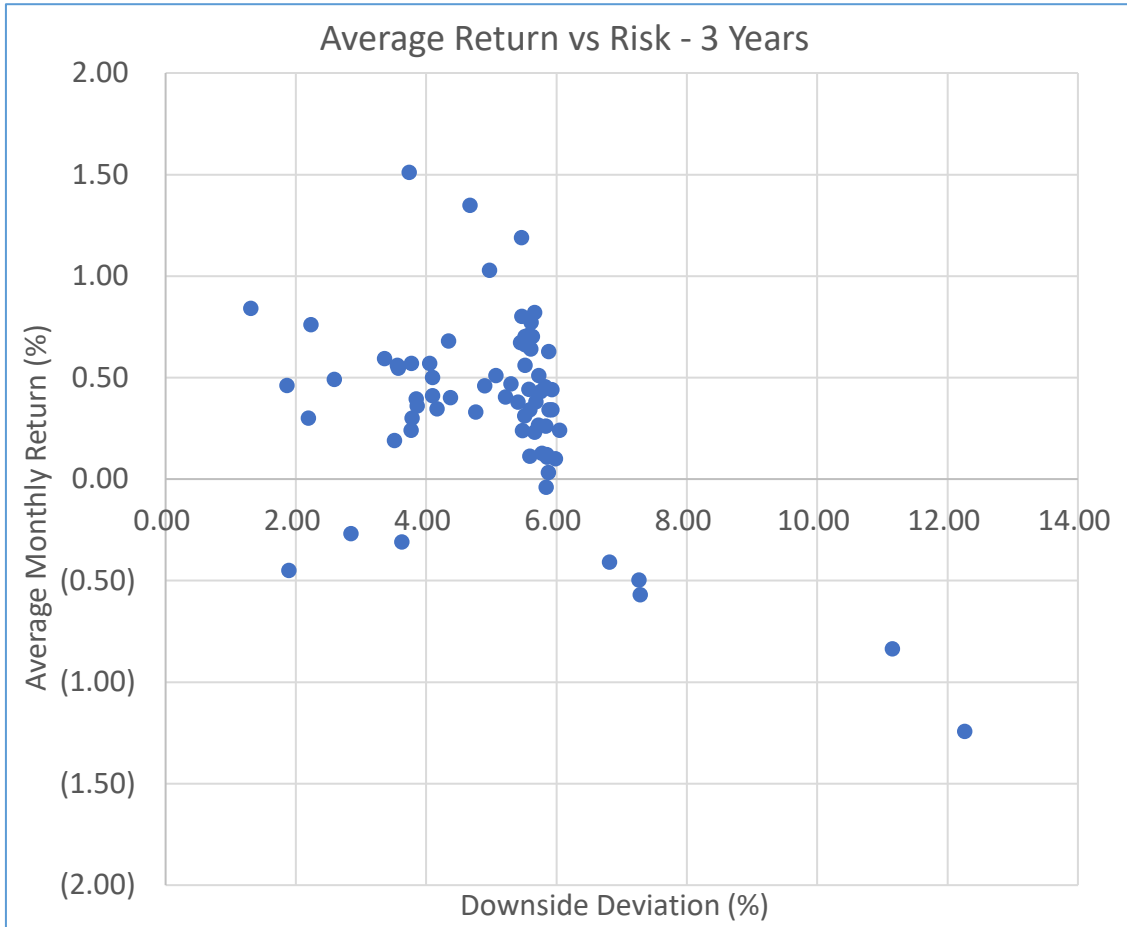
- Downside deviation is a measure of downside risk which is calculated using the returns which fall below a minimum benchmark or Minimum Acceptable Return (MAR).
- The downside deviation can then be used to calculate a Risk Adjusted Return (RAR) for the mutual funds.
- An advantage of downside risk is that it only takes into account negative deviations from the acceptable return threshold while other measures such as standard deviation incorporate both positive and negative deviations from the average.
- Another benefit is that this measure can be tailored for various risk profiles by adjusting the Minimum Acceptable Return (MAR).
- As can be seen in the adjacent graph for 1-year period, a large number of mutual funds fall within a downside deviation range of 2-4%.
- Meanwhile, the graphs for 3-year period and 5-year period (in the next slide) show mutual funds clustered around downside deviation of 6% and 5%, respectively.



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

Mutual Funds | Local Industry

Downside Deviation – 3 Year & 5 Year



Note: Downward deviation calculation for 3-year and 5-year periods is based on 72 and 59 mutual funds, respectively in the categories rated by PACRA.

Regulatory Framework

- Mutual funds are regulated by the Securities and Exchange Commission of Pakistan (SECP) with the objective of protection of investors and development of the capital market. SECP implements a transparent and rigorous process before issuing licenses to fund management companies. In addition, the SECP also carries out continuous monitoring of mutual funds.
- The following regulations and rules are applicable to mutual funds:
 - Non-Banking Finance Companies (Establishment & Regulation) Rules, 2003
 - Non-Banking Finance Companies & Notified Entities Regulations, 2008
 - Part VIII of The Companies Ordinance, 1984
 - Circulars and Directives issued by the SECP under the provisions of the Ordinance.
- Mutual funds are established by a Trust Deed between the AMC and the trustee under the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003. Under the regulations an independent trustee registered with the SECP has custody of all mutual fund assets.
- All Mutual Funds are obliged to appoint an independent trustee, which can be a scheduled bank having a minimum of 'AA-' rating and has been in business for at least five years or a subsidiary of scheduled bank having a minimum of AA- rating or an investment finance company having a minimum of AA- rating or a central depository company.
- The trustee is obligated to ensure that: (i) The asset management company invests the fund's assets in accordance with the approved investment policy and authorized investments of the mutual fund; (ii) All mutual fund property including cash is under its control and is registered in the name of, or to the order of the trustee; and (iii) Fund property is held in trust for the unit holders in accordance with the rules, regulations and provisions of the constitutive documents.



Mutual Funds | Local Industry

SWOT Analysis

- Strong regulatory oversight through SECP and PSX.
- Offers smaller investors access to professionally managed and diversified portfolios.
- There is a large variety of funds and investors can select according to their specific objectives.

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.

- Uncertainty in the market and amongst investors due to emergence of new variants of COVID-19.
- Deteriorating economic indicators may reduce investor confidence

Threats

Opportunities

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

Mutual Funds | Outlook & Future Prospects

Outlook: Stable

- Pakistan's post pandemic economic recovery is exhibited by the GDP growth of ~3.9% during FY21 (based on provisional figures). Among the contributors of GDP growth is industrial activity which has picked up in various sectors with the Large Scale Manufacturing Industries output increasing ~15% YoY during FY21. The sectors which have contributed to this growth are textiles, food & beverages, pharmaceuticals and chemicals. Food & Beverage sector holds a sizable portion of the Index market capitalization, therefore is a positive sign for the Sector.
- During FY21, the stock market also moved in a positive direction as the economic recovery picked up due to which investor confidence in the market also increased. KSE-100 Index returns for FY21 stood at ~38%, significantly higher than previous year's return of ~2%.
- However, during 7MFY22 various economic indicators exhibited a negative trend. The current account deficit for the period crossed USD~9bln as the trade deficit increased largely due to rising international commodity prices. The inflation levels continue to be on a rising trend with CPI inflation clocking in at a significantly higher ~13.0% during Jan-22 as compared to 12.3% during Dec-21. In addition, the exchange rate has also depreciated ~12% since the start of current fiscal year. All these factors combined, created negative sentiments in the market due to which KSE-100 returns for the 7MFY22 period stood at -4.2%.
- However, during Jan-22 the KSE-100 index exhibited a modest positive return of 1.7% in the aftermath of the introduction of the Mini-Budget as well as completion of various prior actions required to satisfy IMF conditions for the Extended Fund Facility (EFF). The IMF recently approved a tranche of USD~1bln after successful completion of the sixth IMF review.
- Moreover, the policy rate has also been increased in successive reviews and now stands at 9.75%, and while the Monetary Policy Committee (MPC) has indicated no further change in short term, the rate is expected to increase further in the medium to long term. Concurrently, the yields on T-Bills and PIBs have also witnessed significant increases following increase in the policy rate.
- There has been significant growth in the mutual funds market during CY21 as total industry AUMs have risen significantly and reached PKR~1,127bln in Dec-21 as compared to PKR~955bln in Dec-2020. This growth of ~18% in AUMs is attributable to both higher level of returns as well as new investments in mutual funds during the period as net sales during the period stood at PKR~132bln.

- 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

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