



CEO MUFAP Reminisces

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Chief Executive Officer, Mutual Funds Association of Pakistan (up to July 31, 2012)

July 31, 2012 was my last working day at MUFAP on completion of my five years term as CEO and after an extended long innings of forty six years of service since qualifying as a Chartered Accountant from the England & Wales Institute of Chartered Accountants in 1966. My working experience has been almost entirely in asset management and development banking, having worked in various positions at National Investment Trust Limited (NIT) and Islamic Development Bank (IDB). A significant point in my working life has been that I started my professional career in Pakistan with the asset management industry and now ending it while working for the mutual fund industry. In writing this Review, I am taking the liberty of reminiscing about my experience, views and lasting impressions I have arrived at from my experience at MUFAP.

Review of the Financial Year 2011-2012

I am very happy that the year under review – 2011 / 2012 has been an outstanding year for the mutual fund industry. The total assets under management for the industry which were PKR 249 billion on the June 30, 2011 increased to PKR 380 billion by June 30, 2012 showing an increase of 53 percent. This has been the largest year on year increase in the assets under management in the fifty years history of the mutual funds industry in Pakistan. Nevertheless, if we compare the assets under management in the mutual fund industry with the bank deposits on the June 30, 2012, these amount to only 6 percent of the total bank deposits. In spite of this year's impressive performance this number remains low, especially considering that the mutual fund industry was introduced in Pakistan some fifty years back.

The mutual funds industry has introduced many attractive products in the last twelve years or so which are especially attractive for the small investors and savers and it is precisely this sector which is most important for mutual funds to develop. While we have not neglected this sector we have certainly not targeted it as actively as we should have in the last twelve years which I would describe as a golden renaissance period for the industry as far as innovation and introduction of new products was concerned. Until the end of the 1990s the only categories of mutual funds in Pakistan were equity and balanced funds in both types of mutual funds i.e. closed-end and open-end. Since then, the mutual fund industry introduced many new products suited to meeting the investment needs and risk appetite of a very broad cross section of the

investing public such as Pension Funds, Money Market Funds, Fund of Funds, Income Funds, Capital Protected Funds and Index Tracker Funds with options available in Money Market Funds and Income Funds for investment return to be paid monthly, quarterly or annually. The mutual funds industry also offers Shariah compliant funds under each of the categories mentioned above. These categories of funds cater to the needs of all type of investors, those who want to invest to supplement their current income and do not want to take risk and those who want to invest for long term growth and to meet their retirement needs.

Investor Awareness and Education

The industry's next focus should be conducting a comprehensive and sustained public awareness campaign to bring across to the attention of the individual investors, the diverse investment features and benefits of mutual funds and voluntary pension schemes.

MUFAP had carried out a successful low budget marketing campaign for Money Market Funds last year. During this year, seminars about the benefits of mutual funds and voluntary pension schemes had been arranged for specific target audiences in collaboration with the Federation of Pakistan Chambers of Commerce & Industry (FPCCI), Central Depository Company of Pakistan Limited (CDC) and Overseas Investors Chamber of Commerce and Industry (OICCI). To increase public awareness for voluntary pension schemes, MUFAP is in the process of setting up an independent website which will provide detailed information on VPS.

I am very happy to mention that the SECP, after launching of a comprehensive country wide public awareness and investor education program in June 2012, is planning to work together with MUFAP on a public awareness and investor education program for mutual funds and voluntary pension schemes targeting the individual investors.

MUFAP over the period 2007-2012

MUFAP has come a long way from its initial days when I joined as CEO and over the period has enhanced and strengthened both its management capabilities and functionalities and is continuously working to improve on an on-going basis. As a trade association, MUFAP represents the economic well being of its members and works to develop high ethical standards and best practices to protect the interest of the unit holders. During my tenure, we have seen the good and the bad times of the industry. The Boards over the period have always given independence and supported the Management in critical decisions and actions. MUFAP is one of the few trade associations which is well represented by all its members, both at the Board level and the Committees level.

During my tenure, MUFAP has played a very critical role in the following regulatory areas:

1. Relating to Bond Market:

Within one year of my joining MUFAP, the country was faced with financial crisis, including flight of capital. The financial crisis engulfed the entire banking sector, non-banking financial institutions, stock exchanges and mutual funds. One of the lessons learned from the financial crisis was the need to have trading platform for the corporate debts (Term Finance Certificates (TFC) and Sukuks) and valuation of the debt securities. With the cooperation of Karachi Stock Exchange and direction of the SECP, MUFAP undertook this task.

- Bond Automated Trading System (BATS) platform was initiated at MUFAP and our members had worked on its development. I along with Mr. Yasir Qadri were members on the SECP-MUFAP BATS Committee.
- TFCs pricing & valuation methodology which has become industry currency was developed at MUFAP and is now being successfully managed by MUFAP.
- MUFAP has played a critical role towards the introduction of the Trustee regulations for TFCs' Trustees and also had worked extensively for introducing the proper listing regulations for debt securities.

2. Relating to removal of anomalies between tax benefit available to occupational savings schemes and voluntary pension schemes:

MUFAP's Accounts and Taxation Committee has always been very active on various taxation related issues and has primarily led the Voluntary Pension Schemes (VPS) related reforms introduced over the period to create a level playing field in terms of taxation benefits vis-à-vis



existing occupational retirement schemes and recommended amendments in labor laws to incorporate VPS as an eligible retirement scheme. The Committee has also been working on the getting the tax credit on investments (mutual funds & voluntary pension schemes) enhanced over the period. With these amendments in tax laws, tax benefits allowed on gratuity and pension offered by employers are at par with VPS.

3. Regulatory framework and MUFAP code:

MUFAP has on an ongoing basis been recommending amendments for improvement in the NBFC Regulations and Rules, VPS Rules, ETFs, company ordinance etc., which include:

- Categorization of Collective Investment Schemes.
- Inclusion of Gold/Commodity as an asset class in the Categorization Circular.
- Introduction and implementation of the Code of Qualification for Registered Service Providers of MUFAP.
- Paper on Management Fee sharing with Investors; MUFAP recommended that Management Fee Sharing with investors directly or indirectly be disallowed. (recently notified by SECP)
- Standardization of benchmark for each category of CIS. (in process)
- Working on Performance Presentation Standards. (in process)
- Code of Ethics Standards of Professional Conduct for Asset Management Companies (submitted to SECP for approval).
- Training certification program for distributors/sales agents/ sales team & training manual. The first training manual and first exam for the training certification program was prepared at MUFAP. Subsequently the same was handed over to Institute of Capital Markets.

4. Standardization of legal documents and reporting:

- Standardization of trust deed and offering documents of mutual funds; the process was initiated by CDC and finalized jointly by CDC and MUFAP. The draft documents have been submitted to the SECP and NOC has been received from SECP.
- Introduction of the Monthly Fund Manager's Reports and subsequently standardization of Fund Manager's Reports.

5. Database:

- i. Improved, informative and interactive website containing:
 - Daily NAVs
 - AUMs
 - Payouts
 - Standardized Returns
 - Daily TFC Trade details
 - Daily & Fortnightly valuation of TFCs
- ii. Dissemination of Daily NAVS in the Newspapers. (collectively through MUFAP)
- iii. Daily TFC Trade details.
- iv. Daily & Fortnightly valuation of TFCs.
- v. Availability of daily NAVs & monthly portfolio of closed-end funds.
- vi. Yearbook containing: MUFAP Members Profile, Professional Committee Terms of Reference, MUFAP Activities and Events, Chairman's Review covering macro issues, CEO's Review covering micro issues, Articles on core issues of the industry, Statistics (Net Assets, Sales, Redemptions and Net Sales, Mutual Fund Returns, Unit Holder Pattern, new funds launched during the year).
- vii. Quarterly newsletter covering: MUFAP Activities, Events, SECP Updates, Market Development & Capital Markets Updates, Investor educations/ industry matters related, Articles Contributed by AMCs & Funds Statistics.

It is our objective that MUFAP should become a main source for industry data that should be available on the website to members, investors, researchers and those interested in industry data. MUFAP is on the way to achieving this objective in the near future.

6. Awareness program and promotion of mutual funds:

- Collective Advertising Campaigns (Money Market Campaign).

- Global Investment Performance Standards (GIPS) Awareness sessions.
- Public awareness seminars with CDC for FPCCI, OICCI members.
- Road shows in collaboration with CDC.
- VPS website & awareness campaign. (in process)
- Five year strategic plan for industry development for implementation by SECP.

MUFAP hosted 12th Asia Oceania Regional Meeting of International Investment Funds Association (IIFA), in Lahore in 2007, attended by heads of respective associations of countries of the region to include Japan, Australia, Singapore, Philippines, Taiwan, China, Hong Kong, Bangladesh and India.

Going Forward

The industry has come a long way since the turbulent times it faced during and immediately after the previous economic correction at the end of 2008. In those turbulent times faced by the industry there was a complete absence of support from the Regulators in Pakistan as was provided to the mutual funds industry worldwide. Not only was the support to the mutual funds industry not forthcoming from the Regulators, some measures adopted by the Regulators such as the virtual closure of the stock market for about 110 days were a disaster for the Capital Markets, specially the mutual fund industry. The successful coping with this turbulent period and the special difficulties created for the industry is all because of the very able and resolute leadership and very competent professionals at all levels in our industry.

I am very confident that the mutual funds industry will grow very rapidly in Pakistan in the years ahead. My optimism is for the important reason that the mutual fund industry has some of the brightest and ablest professionals in the country. The mutual funds industry has very attractive products and the need is to bring them across to the attention of the prospective investors in a sustained and well planned manner. This need is recognized by the industry and I am confident this need will be addressed very adequately and professionally in a well organized manner.

The further rapid growth in the total assets under management in the industry in my view will come through the Equity Funds, Income Funds, Money Market Funds, Pension Funds and ETFs. In the United States the biggest growth in Money Market Funds since the 1980s came with Money Market Funds introducing cheque writing facilities and provision of Debit Cards with the Money Market Funds. I expect most of the Money Market Funds in Pakistan will be introducing Debit Cards for their investors soon. Introduction of Cheque writing facilities with Money Market Funds is likely to face resistance from Commercial Banks. We need to study how this hurdle was tackled in the United States some thirty years back. In the United States the Money Market Funds assets now are US \$ 2.6 trillion. This level was reached in the United States because of the relatively very attractive returns provided as compared to keeping money with commercial banks and also a very high level of security and very importantly the features such as cheque writing facilities and Debit Cards for use against the Money Market Funds on deposit.

Our industry is expected to launch ETFs very soon. I would like to highlight that in the last twenty years the ETFs have taken the investing world by a storm. In the United States alone they have attracted more than 1 trillion dollars in assets. The forecasts are that in the United States the assets under management through ETFs in the next twenty years will triple.

The years immediately ahead are also likely to see a long overdue consolidation phase in our industry. For AMCs the size and quality of the assets under management is very important for long term sustainability. It is with size that AMCs can recruit and retain the high quality professional staff for research and other important services which are needed to be provided to add value for the benefit of the investors whose funds they are managing. AMCs in other countries also started with modest beginning but they began as niche players, often starting with one specialist fund in which they aim at outperforming the bigger players with superior performance. It is only through providing superior performance AMCs can and do succeed in attracting more investors and growing. One important early lesson I had learned in my long association with the asset management industry was that the most important recipe for success for AMCs is the recruitment of professional staff of the highest quality, instituting a strong culture of performance and customer services. Once the staff has been recruited the important need is also to create an environment of working as Team with trust and respect where merit and performance is generously rewarded.

One area which the MUFAP could have covered and contributed more actively during my tenure of office



is the Continuing Professional Education for the professional staff in the industry. MUFAP's contributions in this area in recent years have been modest. Under the direction and guidance of Mr. Mir Muhammad Ali and Mr. Mohammad Shoaib, workshops on Global Investment Performance Standards were introduced. With the assistance of the International Finance Corporation of the World Bank Group three Workshops on Development of Assessment Techniques for Corporate Governance in Investee Companies were conducted. The mutual fund industry has produced some outstanding and qualified professionals. Additionally our country is blessed with some very successful entrepreneurs. With these professionals and drawing on others from the Banking, Financial Services industry, Central Bank and SECP, MUFAP could perhaps initiate lectures, seminars and workshops on the lines the ICAP has been doing for the Continuing Professional Education of the professional staff in the industry.

Board Meetings/ Attendance:

MUFAP directors have been extremely generous in giving their time for industry cause. During 2011/2012 tenure of the Board, twenty-three meetings were held of the Board of Directors between October 1, 2011 to September 30, 2012. The attendance recorded at the meetings of the Board of Directors for 2011/2012 is summarized as below:

S.No	Name of Directors	Attendance
1	Imran Azim - Chairman	22
2	Mohammad Shoaib - Vice Chairman	17
3	M. Habib-ur-Rahman	20
4	Yasir Qadri	18
5	Mir Muhammad Ali	17
6	Farid Ahmed Khan	15
7	Nihal Cassim	15
8	Adnan Siddiqui	14
9	Amer Maqbool	14
10	Babar Ali Lakhani	13
11	Shahid Ghaffar (Resigned on April 20, 2012)	11*
11	Tara Uzra Dawood	10
12	Wazir Ali Khoja	0
13	Shamshad Nabi (Retired on July 31, 2012)	15**
14	Mashmooma Zehra Majeed (Appointed from August 1, 2012)	4***

* out of 12 meetings

** out of 19 meetings

*** out of 4 meetings

Acknowledgements:

In Mr. Muhammad Ali, we have a SECP Chairman of exceptional mettle, who has a very defined vision and strategy for the development of the capital markets and the mutual fund industry in Pakistan. He has already initiated a number of projects towards achieving this goal and we all hope that he will, Inshallah, continue to have the opportunity to contribute towards further developing the industry. I am confident that he will have the fullest cooperation and committed support of the mutual fund industry in his endeavors.

In my five year tenure at MUFAP, I have had the privilege of working with some of the most exceptional members of the Industry as Chairmen on the Board of MUFAP. I would like to thank all the ex- and current chairmen of MUFAP, Mr. Najam Ali, Mr. Nasim Beg, Mr. M. Habib-ur-Rahman, Mr. Shahid Ghaffar and Mr. Imran Azim, for their generous support and for providing me with full autonomy to work at MUFAP.

What has given me immense satisfaction is that I am leaving MUFAP in the hands of an able and committed successor, Ms Mashmooma Z. Majeed. The management team at the MUFAP is also very strongly supported by Ms Zainab Abubakar as the Chief Operating Officer with a small but very competent and committed team.

I would like to thank everyone at the SECP, especially the Chairman, Mr. Muhammad Ali, Executive Director Specialized Companies Division, Mr. Asif Jalal Bhatti, Director AMCs Wings Mr. Rashid Piracha and Director Pensions Wing, Mr. Muhammad Afzal and the entire AMCs and Pensions Team for the very generous support provided and courtesies extended to me. It was a pleasure interacting with SECP at all levels. I was very impressed with their ability, professionalism and commitment.

Lastly, I would also like to record my gratitude for the very generous support I received from Members at all levels, the Chairmen and the Board of Directors over the years, the SECP and my colleagues at MUFAP and also for their very kindly overlooking my weaknesses and shortcomings which were many.

Thank you and Au Revior.

