

Looking into the Crystal Ball – Future of Investment Management Industry in Pakistan

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If you had asked someone in the Investment/ Asset Management Industry back in 2007 about the future of Mutual Funds, they would have told you it was bright – very bright indeed. But sometimes the clearest of Crystal Balls fog up with the clouds of the unforeseen and unpredictable. Such was the case with the Asset Management Industry in Pakistan which suffered some rude shocks most notably the 2008 stock market floor/freeze and the TFC prices markdown (re-pricing). However, good news for the investor today is that the industry has overcome those difficulties and today is smarter & more investor-oriented than ever.

“The Winds of Change are blowing”

Today the Asset Management Companies (AMCs) are operating in an ever changing regulatory framework and economic environment. All these changes, by and large, have been positive for the investor and the industry as a whole. The recent past has on the one hand brought a squeeze on the tax benefits to banks while on the other hand it has provided additional tax relief to Voluntary Pension Schemes (VPS) bringing them at par with existing Pension Schemes and other occupational retirement schemes. Further, enhanced limits of tax rebates for individual investors, regulatory restriction on management fee sharing, more stringent regulatory requirements and other matters such as provisioning for Workers’ Welfare Fund have all made the investment management space a dynamic arena to compete in. Moreover, the collective impact of all these sequential changes have been what we call “Game Changers” and as we all know that once the game changes, so do the rules of the game and the competitive dynamics.

The rules of this new game are compelling the Investment Management Industry to evolve to the next level and emerge stronger & better, and to have a longer term vision. Now, if economic and financial cycles are to be believed (and empirically they do exist) then if within the next 2-3 years, stability is achieved both on the political and international relation (especially with the United States) fronts, there will be a palpable impact on the overall economy, the market sentiment and the economic activity. With this happening the overall investment climate would improve. Combine this with our historically healthy corporate earnings and investors are likely to witness growth in the overall economy, the capital markets and the financial sector which is bound to be reflected in the growth and profitability of their investments.

“The empires of the future are the empires of the mind”

Sir Winston Churchill

There is great investment potential out there, waiting to be explored. The vision and the collective efforts of the Asset Management industry as a whole will contribute towards the longer term growth and evolution of investors in Pakistan. In a more competitive environment, the most efficient and most profitable AMC will surface as the survivors. Going forward, there may be consolidation through mergers and acquisition as well as an industry shakeout of weaker players. Overall the industry will become more stable, with larger players having longer history & a sound track record emerging as the winners. Niche players will also develop and have a differentiated strategy, either product wise, e.g. high alpha specialized funds, or investor wise; higher levels of service and innovative need based investment solutions will appear so as to cater to specific investor segments. Additionally, Separately Managed Accounts (SMA) would become a specialized avenue which will support the growth of the advisory activities in the industry and provide more customized solution to investors. Another highly beneficial investment option which would see gradual advancement and growth in the coming days is the Voluntary Pension Schemes (VPS).

“Little by little, one walks far”

Peruvian Proverb

In the coming years, the industry may opt for outsourcing of non-core efforts such as operations, back office functions, IT systems and distribution. All these services (as is the case in the developed markets) will be provided by specialized companies. Fund managers will mostly be concerned with managing funds which is their core business. The bar would be



raised for service levels, state of the art technology and sophisticated investment platforms would have to become the industry standard. All in all, the investor would be the beneficiary of the efficiencies created.

In the new environment, the investment horizons of the Corporate and Individual investor would have to be longer-term. The industry would have to bring in SMEs as one the primary investors of Mutual Funds. The Individual and High Net Worth investors will require special focus as a very important segment for the future. Retail outreach and distribution will become imperative for the long term portfolio building and Assets Under Management (AUM) stability of the AMCs. These investors will be tapped through the retail branch network of bank-backed AMCs and through distribution alliances. Also financial transactions through internet and mobile telephony may become an important part of facilitating investors. We will now see greater demographic investor mix and geographic diversification. Outreach to savers in smaller towns and suburban areas will ensure inclusion of 'sticky' and stable base of individual investors. On the HNW side, sophistication will allow niche players to offer specialized product with a high risk-return ratio such as ETF, CPPI-methodology based funds, Equity based funds, commodities/gold funds.

The Investment Management Industry can provide solutions for Non-Resident Pakistani (NRP) investors by offering equity market/ balanced funds and Real Estate Investment Trusts (REITs). Additionally, remitters can be considered the "dollar indifferent" investors – who in other words already have an appetite for investing in the Pakistani Rupee – and would be offered attractive and safe investment vehicles.

Further the evolution of the Financial Advisory and Wealth Management business is inevitable and very soon leading financial institutions will have arms specializing in Wealth Management and Private Banking.

"There are no shortcuts to any place worth going"

Beverly Sills

In conclusion, it would be fitting to say that there is great potential for creating value and capturing growth in the Mutual Fund Industry, but it is incumbent on creating investor awareness vis-à-vis risk verses return and on upholding investment advisory ethics (eliminating mis-selling) as well as offering appropriate, need-based investment solutions through a wider outreach.

Confessedly, all these are longer term efforts, and their impact and success will be felt over the next few years. These efforts are sure to reap excellent results for all the stakeholders – unless of course (as was the case in the past) some unforeseen events in the economy and the capital markets may prove me a poor prophet, particularly since...

"It is hard to make predictions – especially about the future"

Robert Storm Petersen

