

## 10. BENCHMARKS FOR DIFFERENT CATEGORIES OF MUTUAL FUNDS (AD-HOC) COMMITTEE

(13 meetings held in the period October 25, 2011 - September 30, 2012)

<u>Member</u>	<u>Meetings Attended</u>	<u>Member</u>	<u>Meetings Attended</u>
Mohammad Asad ( <i>Chairman</i> )	12 of 13	Basharatullah Khan	1 of 13
Abid Jamal	11 of 13	Junaid Khalid	11 of 13
Agha Tariq Ali	5 of 13	Muhammad Umair Chauhan	7 of 13
Ali Alvi	8 of 13	Noman Qurban	7 of 13
Aniel Victor	9 of 13	Sajjad Anwar	11 of 13

### ACTIVITIES' REPORT

The Committee thanks Mr. Yasir Qadri and Mr. Nihal Cassim for their guidance. The Committee reviewed the existing benchmarks for each category of mutual funds. The categories prescribed by SECP in Circular 7 of 2009 were further divided to accommodate Shariah Compliant variants of those categories. The existing benchmarks were evaluated against 'attributive criteria of benchmark' as defined by CFA Institute and weaknesses were identified.

### TERMS OF REFERENCE

- To recommend standardized benchmarks for each category of mutual funds under SECP's Circular 7 of 2009 for uniformity.

Extensive discussions were held during the course of time and Standardized Benchmarks for each category were worked on after taking account the existing weaknesses, prevailing fund management strategies along with International best practices. The Committee concluded that a 'one size fits all' approach would not work due to the wide variety of investment policies followed by funds even within a particular category. It was recommended that each Fund Manager be allowed to choose from one of the following two main benchmarking methodologies for the fund.

#### 1. Fund specific benchmarks

The Fund Managers may construct their own benchmarks based on the asset-allocations mentioned in their "Investment Policy Statement" (IPS) approved by the Regulator. Each individual asset class will be represented by a "core benchmark" which will be used to represent that asset class when calculating the asset-allocation based benchmark for a particular fund. Fund Managers may use these "core benchmarks" or a combination to create a benchmark for their fund.

#### 2. Peer group indices

There is an increasing international trend to use fund peer group indices as a representative for an asset class. These can be computed using a simple average of the returns of the funds in that particular category. Peer Group Indices are easy to maintain and are easily understandable by general public.

The Committee is carrying on the detailed workings, methodologies and testing of the proposed benchmarks. The Committee submitted its recommendations to the Board of Directors which were approved in the meeting held on July 9, 2012 and then forwarded to the SECP for their review, MUFAP is awaiting the comment/consent from SECP to further proceed in this regards.

