

CEO Review



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The financial year 2012-2013 ended on a lacklustre note. The assets under management declined slightly from PKR 380 billion on June 30, 2012 to PKR 362 billion as on June 30, 2013 after touching a high of PKR 444 billion in November 2012. The money market funds category witnessed an outflow as majority of the banks reduced their investments in these funds pursuant to the change in their tax rates. The Karachi Stock Exchange scaled new heights with the KSE 100 Index ending the year at 21,005, up 52%. The returns posted by the Equity Mutual Funds category reflected the upside movement, unfortunately investors of mutual funds failed to capitalize on the same as they continue to shy away from investing in equity funds. Investors seemed more inclined towards Shariah Compliant Funds as net sales were witnessed in all categories of Shariah Compliant Funds.

15 Pakistani equity mutual and pension funds among world's top 100 in CY 2012 in an analysis done by Thomson Reuters Lipper

15 equity funds from Pakistan made it into the list of the world's top 100 best performing equity funds in 2012 (calendar year), according to an analysis of data for 27,431 actively managed equity mutual funds tracked by Thomson Reuters Lipper globally.

As reported by Thomson Reuters Lipper, a total of 43 mutual funds investing in Asia made it into the list of the world's top 100 best performing equity funds in 2012 as regional markets from India to Southeast Asia rallied. The Karachi Stock Exchange's 100 share index surged 49 percent, while Bangkok's benchmark SET index finished 35.8 percent up from last year, making them the two best performing stock markets in Asia. The Asia-focused funds produced an average return of 62.3 percent, outperforming the top market in the region as well as the 18.6 percent advance in the MSCI's broadest index of Asia-Pacific shares outside Japan. Nearly

7,300 equity funds investing in Asia and tracked by Lipper returned an average 17.9 percent in 2012. By comparison, non-Asian funds gained 13.3 percent, the data showed.

The 15 Funds from Pakistan and their respective ranks in the Top 100 Funds of 2012 are as given below:

Rank	Fund Name	CY 2012 Return(%)
5	Golden Arrow Selected Stocks Fund	105.25
6	AKD Opportunity Fund	95.60
20	Safeway Mutual Fund Limited	74.23
22	Asian Stocks Fund Limited	72.26
29	NAFA Stock Fund	69.40
43	JS Pension Savings Fund - Equity Sub Fund	62.59
47	Atlas Stock Market Fund	60.69
51	JS Growth Fund	60.43
52	Pakistan Pension Fund - Equity Sub Fund	60.31
80	Atlas Pension Islamic Fund - Equity Sub Fund	57.61
89	Atlas Pension Fund - Equity Sub Fund	55.93
90	Pakistan Islamic Pension Fund-Equity Sub Fund	55.70
94	MCB Dynamic Stock Fund	54.57
96	ABL Stock Fund	54.39
99	JS Islamic Fund	54.07

Source: Thomson Reuters Lipper

(<http://www.reuters.com/article/2013/02/26/asia-equityfunds-rank-idUSL4N0AM5SH20130226>)

Return calculated for primary, actively managed equity mutual funds. All returns are in local currency of the fund.

Inclusion of Commodity as a new category and asset class

The Securities and Exchange Commission of Pakistan (SECP) notified the inclusion of commodities both as a new category of mutual funds and as an asset class for existing categories (balanced and asset allocation funds). In addition, the SECP has also notified the inclusion of Commodity as a sub-fund for the Voluntary Pension Schemes (VPS).

Pursuant to the above notifications, two full fledged open-end Gold Mutual Funds were launched during the year which shall invest at least 70% of the Net Assets in Gold or Gold Futures Contracts during the year based on quarterly average investments calculated on daily basis.

Standardized Trust Deed and Offering Document for Mutual Funds

This financial year witnessed the completion of project pertaining to standardization of constitutive documents (trust deed and offering document) on which MUFAP and CDC (Central Depository Company of Pakistan Limited) have been jointly

working for the past two years. The no-objection from SECP was received in October 2012. A key objective of this project is to reduce the turnaround time for SECP's approval and ensure standard contents of the constitutive documents for ease of unit holders. MUFAP and CDC subsequently devised and shared with SECP a mechanism/procedure for the smooth implementation of standardized constitutive documents to ensure that AMCs do not deviate from the standardized contents or properly disclose clauses/provisions along with justification in case of deviation from the standardized contents.

MUFAP places on record deep appreciation for CDC and thank Mr. Atiqur Rehman and Mr. Abdul Samad of CDC for their hard work and contribution towards the finalization of the Standardized Trust Deed and Offering Documents for Mutual Funds, which would facilitate not only the AMCs but also the unit holders.

Standardized Benchmarks for each Category of Mutual Funds

A committee had been formed in the previous year which had proposed standardized benchmarks for each asset class and peer group indices for each category of Mutual Funds. It is important that the benchmarks are also standardized so that unit holders are easily able to compare the performance of the various funds in a particular category. MUFAP has been in discussions with the SECP on the matter and the matter is currently pending at the SECP.

Valuation of Ijarah Sukuks

The matter of valuation of Ijarah Sukuks remained a major focus area for MUFAP's Pricing Policy, Development and Promotion of Debt Securities and MUFAP's Board. MUFAP's Committee engaged Financial Markets Association of Pakistan (FMAP) on the matter.

In absence of regular Ijarah Sukuk auctions by the SBP, the price behaviour of the Ijarah Sukuks has been very erratic as trading is quite limited in the same and therefore, it is difficult to find a price/methodology that is reflective of the underlying true pricing of the Ijarah Sukuks in the market. The Committee studied in great detail the various options available in the market for valuation purposes. While none of the options available represent the true market price of Ijarah Sukuks, the Board recommended using of "PKISRV" quoted on Reuters/FMAP as the relevant price to "Mark to

Market" the Ijarah Sukuks to bring consistency in the industry and standardize the price at which the Ijarah Sukuks are marked to market. The same was notified by SECP in September 2013.

Opening/Revocation of Closed-end Funds under Regulation 65 of the NBFC & NE Regulations, 2008 Committee

This financial year witnessed that the closed-end funds (except two former ICP Funds with frozen holdings) were required to either convert into open-end funds or wind down in order to meet compliance with Regulation 65 of the Non Banking Finance Companies and Notified Entities Regulations, 2008.

Worldwide closed-end funds remain a thriving part of the mutual funds industry. Based on Investment Company Institute's 2013 Investment Company Fact Book, in the United States, total net assets of closed-end funds increased to \$265 billion at year-end 2012, up 9 percent from year-end 2011. Closed-end fund assets have increased by \$106 billion, on net, over the past decade. At the end of 2012, there were 602 closed-end funds.

A closed-end fund (CEF) is an investment company that holds other publicly traded shares/securities. A CEF issues a fixed number of shares that are then traded on the stock exchange. To liquidate a holding in a CEF, investors must sell their shares to other investors rather than redeem them with the fund itself for the net asset value (NAV) per share. The closed end puzzle or anomaly that exists is that CEF shares typically sell at prices that are not equal to the per share market value of the assets the funds hold i.e. NAV. In recent years discounts of 10 to 20 percent have been the norm for these CEFs internationally.

Workers Welfare Fund (WWF)

MUFAP has been actively engaged in pursuing constitutional petition relating to levy under Workers Welfare Fund (WWF) on the mutual funds. MUFAP has very clear clarifications issued by the Ministry of Labor and Manpower that WWF is applicable on asset management companies but not on mutual funds which are exempted from WWF. The same statement has also been recorded twice in court by the representatives from the Ministry of Labor and Manpower. Nevertheless the FBR has persisted in sending notices for WWF sent to mutual funds. Mutual Funds Constitutional Petition for decision and judgment of the Sindh High Court is pending at the Court since June 30, 2010. We

remain optimistic that the final outcome will be favorable for us. Meanwhile due to the fact that the underlying funds are open-end, they continuously face the dilemma as to how deal with the issue which remains in the best interest of the unit holders as both providing and not providing can have negative implications if the outcome is favorable or adverse respectively.

Federal Excise Duty (FED) on asset management services

Federal Budget brought in a new surprise in the form of imposition of Federal Excise Duty (FED) on asset management services. MUFAP made representations to SECP, FBR and Ministry of Finance, that since Provincial Governments are already collecting Sales Tax on asset management services, imposing of FED amounts to double taxation. Further such taxes will discourage savings in the country as other savings/investment products do not have either of provincial sales tax or FED, while direct investment in stocks and commodities has FED only on brokerage commission. Introducing FED on top of Provincial Sales tax will majorly impact the savings in the country and in an environment where savings rate is already very low, and investors base in the mutual fund industry is very limited, such measures will deter investment. The Sindh Provincial Assembly also passed a resolution on June 24, 2013 against imposition of FED calling any move aimed at amending the definition of sales tax on services in federal finance bill as "unconstitutional." After the 18th amendment to the Constitution through the Constitution (Eighteenth Amendment) Act, 2010, only the provinces can impose sales tax on services. FED on services is no different than sales tax on services since the taxable event is the same i.e. sales tax and FED on services are the identical tax. Despite MUFAP and SECP's representation and protests by Sindh Assembly, the Federal Government continued with the proposal of imposing FED on asset management services and the said amendment was approved by the National Assembly. Later during August and September 2013, notices were sent to asset management companies for collection of FED. After consulting with MUFAP legal counsel, it was decided to file a petition in the Honourable Sindh High Court on constitutional grounds. The petition has since been filed and the Honourable Court has granted stay order. Mr. Rashid Anwar of Messrs A. K. Brohi and Co. are representing MUFAP in the Honourable Sindh High Court.

While the stay has been issued, it is imperative that

the case is heard and disposed off at the earliest so that NAV and thereby the returns are not distorted for unduly long period.

Public Awareness Sessions

- **Seminar at OICCI on Voluntary Pension Schemes (VPS)**
MUFAP along with the six Pension Fund Managers arranged a seminar on VPS for the members of Overseas Investors Chamber of Commerce and Industry (OICCI) in June 2013.
- **Awareness Session at SECP on Voluntary Pension Schemes (VPS)**
MUFAP arranged for an awareness and information session on VPS for the SECP employees at the SECP Head Office in Islamabad in March 2013. SECP has introduced VPS as an additional retirement benefit for its employees.

Events and activities during the year

- **MUFAP hosts first T20 Cricket Cup 2012**
MUFAP's first Hard Ball Cricket tournament was held in which 12 teams participated. The participating members included Atlas Asset Management, Al Meezan Investment Management, Central Depository Company, MCB-Arif Habib Savings and Investments, MUFAP, HBL Asset Management, JS Investments, Pak Oman Asset Management Company, NBP Fullerton Asset Management, National Investment Trust (NIT), IGI Funds and UBL Fund Managers. Each team played 5 group matches followed by semi-finals and finals. The semi-finals and final matches were held at National Stadium. HBL Asset Management won the final match of the T20 Cup 2012.

PICIC Asset Management was the platinum/lead sponsor of the tournament and Central Depository Company (CDC) the co-sponsor of the tournament. The Silver Sponsors included Al Meezan Investment Management, HBL Asset Management, MCB-Arif Habib Savings and Investments, NAFA, NIT and UBL Funds. NIT sponsored the awards for Man of Matches and Series Awards including Man of the Series, Best Batsman, Best Bowler and Best All Rounder.

MUFAP is pleased that this tournament encouraged fun, interaction and bonding between member companies and we look forward to continuing this on an annual basis.

- **MUFAP hosted a Stage play 'PAWNAY 14 August'**
MUFAP in collaboration with ABL Asset Management, Askari Investment Management, Atlas Asset Management, Central Depository Company, HBL Asset Management, MCB-Arif Habib Savings and Investments Limited, JS Investments and NBP Fullerton Asset Management hosted the highly acclaimed theatre play 'PAWNAY 14 August' written by Anwar Maqsood on November 3, 2012 at Karachi Arts Council.
- **MUFAP hosted Saving Car Heritage on wheels**
MUFAP in collaboration with Vintage Classic Car Club of Pakistan hosted Bachat Car Rally to promote savings culture in Pakistan. The participating members included Askari Investment Management, Atlas Asset Management, Central Depository Company, Habib Asset Management, HBL Asset Management, MCB-Arif Habib Savings and Investments, JS Investments, NAFA, PICIC Asset Management Company and UBL Fund Managers. The cars left from Karachi on November 4, 2012 and did a show in Lahore and Islamabad before returning.
- **MUFAP hosted a Stage play 'Aangan Terrha'**
MUFAP hosted the exciting and hilarious theatre play 'Aangan Terrha' written by Anwar Maqsood on February 23, 2013 at Karachi Arts Council. The event was aimed at bringing members, businessmen, industrialists and investors together in a fun and entertaining environment. The event was sponsored by Atlas Asset Management and HBL Asset Management while co-sponsored by JS Investments, and supported by NBP Fullerton Asset Management and Askari Investment Management.
- **26th Annual Conference of International Investment Funds Association (IIFA), Cape Town**
The 26th International Annual Conference and General Meeting of the International Investment Funds Association (IIFA) was held in Cape Town from October 21 to October 24, 2012. The meeting was attended by delegations from 36 different countries. The 3-day conference comprised panel discussions from leading investment experts from across the world as well as South Africa's Minister of Finance. From Pakistan, the Conference was attended by Ms. Tara Uzra Dawood, Director MUFAP and CEO of Dawood Capital Management Ltd.

- **66th CFA Annual Conference**

CEO MUFAP, CEO of Al Meezan Investment Management, one representative from MCB-Arif Habib Savings & Investments and three representatives from UBL Fund Managers were amongst the 1300 delegates from 58 countries who attended the 66th CFA Institute Annual Conference between 19-22 May in Singapore. The goal of the CFA Institute 66th Annual Conference was to offer delegates the opportunity to explore the challenges facing the industry and examine ways to help shape the future of finance. More than 1,200 award-winning academics, economists, and business leaders spent several days sharing ideas, expanding their professional competence, and joining our efforts to restore trust in finance and raise standards in ethics, education, and professional excellence.

- **Webcast sessions from the 66th CFA Annual Conference**

MUFAP in collaboration with CFA Society Pakistan conducted the following two webcast sessions from 66th CFA Annual Conference for its members:

A. Geography's Role in Shaping History, Politics, Economics, and Societal Imperatives by George Friedman, CEO and Founder of Stratfor. Covering:

- Geopolitical forecasting and what it tells us today about tomorrow
- Geopolitical trends in the global economy and their role as inputs in global investment strategy
- Regional analysis today and for the next 10 years and global analysis of power around the world

B. The Great Convergence: Asia, the West, and the Logic of One World by Kishore Mahbubani, Dean and Professor in the Practice of Public Policy at Lee Kuan Yew School of Public Policy National University of Singapore. Covering:

- A new global order requires new policies that share power among developed, emerging, and frontier nations
- Democracy, the recognition of power imbalances, and the rule of law are the three principles that should drive global governance reform
- Seven major geopolitical fault lines must be resolved to create a single, harmonious, global

community

Board Meetings/ Attendance

MUFAP's Directors have been extremely generous in giving their time and expertise for industry issues. During 2012/2013 tenure of the Board, fourteen meetings were held of the Board of Directors. The attendance recorded at the meetings of the Board of Directors for 2012/2013 is summarized as below:

#	Name	Meetings Attended
1	Mr. Rehan N. Shaikh - Chairman	11
2	Mr. Rashid Mansur - Vice Chairman	12
3	Dr. Amjad Waheed	14
4	Mr. Imran Azim	13
5	Mr. Mir Muhammad Ali	11
6	Mr. Nihal Cassim	11
7	Mr. Imran Motiwala	8
8	Mr. Mir Adil Rashid	7
9	Ms. Maheen Rahman	6
10	Mr. Adnan Siddiqui (Resigned on August 2, 2013)	6 (out of 12)
11	Ms. Hina Ghazanfar	5
12	Ms. Tara Uzra Dawood (Resigned on March 22, 2013)	5 (out of 8)
13	Mr. Amer Maqbool	4
14	Ms. Mashmooma Z. Majeed - Chief Executive Officer	14

Key Challenges

- **Early resolution of WWF and FED Court cases**

MUFAP along with mutual funds, pension funds and asset management companies filed a petition against the imposition of Workers Welfare Fund (WWF) in June 2010 as the funds were receiving unjust notices from FBR for payment of the same. MUFAP has legal opinions from senior and eminent counsels as to why WWF is not applicable to mutual funds. Stay orders have been issued in our favour by the Honourable Sind High Court. The case has been pending hearing since then in the Sindh High Court.

MUFAP along with mutual funds, pension funds and asset management companies filed a petition against the imposition of Federal Excise Duty (FED) in August 2013. Stay order has been issued in our favour by the Honourable Sindh High Court.

While the stays have been issued in both the cases, which stops the FBR from taking coercive action against the funds, it is imperative that these cases are heard and disposed off at the earliest so that NAV and thereby the returns are not distorted for unduly long period. The longer these cases drag the bigger the liability becomes for the

funds. Meanwhile due to the fact that the underlying funds are open-end, they continuously face the dilemma as to how deal with the issue which remains in the best interest of the unit holders as both providing and not providing can have negative implications if the outcome is favorable or adverse respectively.

MUFAP understands the significance of the issue for investor and industry interest and is actively following up its resolution through the Court SECP, and Government of Pakistan.

- **Public Awareness Sessions and expanding the Retail Investor Base**

It is imperative for long term sustainable growth of the mutual funds industry that the retail investor base increases. Asset Management Industry vis-a-vis the Banking Sector presents a bleak picture, not only in terms of assets under management, but also with regard to participation and outreach to the general public. Currently, asset management companies are offering a diversified range of mutual and pension funds to meet the risk appetite of investors, yet the awareness in the masses is lacking of the options available to them.

The industry's next focus must be on conducting comprehensive and sustained public awareness campaigns to bring to the attention of the individual investors, the diverse investment features and benefits that mutual funds and voluntary pension schemes offer to them. The Government is also required to facilitate asset managers to promote, educate and encourage investors to save.

Acknowledgement

I would like to thank SECP for their continued support. I am particularly grateful to Mr. Tahir Mahmood, Acting Chairman SECP, Mr. Muhammad Ali, former Chairman SECP, Mr. Asif Jalal Bhatti, Executive Director Specialized Companies Division, Mr. Akif Saeed, Executive Director Market Development and Investor Education Department, Mr. Muhammad Afzal, Director REITs & Pension, Mr. Rashid Piracha, Director AMCs and the entire AMCs, Pensions and Strategy, Development, Investor Education Teams for their proactive role in dealing with issues relating to mutual funds industry and VPS.

I would like to thank the Chairman Mr. Rehan Shaikh, Vice Chairman, Mr. Rashid Mansur and Board of Directors and Committees' Members for their guidance, dedication, teamwork and support. Lastly, my thanks and appreciation for the management team of MUFAP for their hard work and commitment.