



## Chairman Review

### Mr. Mohammad Shoaib, CFA

Chairman, Mutual Funds Association of Pakistan

The Mutual Funds Industry closed the financial year at PKR 443 billion up a nominal 6.3% over the year. The equity funds category (both conventional and Shariah compliant) constituted of PKR 177 billion, up 33% from last year followed by the Income Funds Category at PKR 101 billion up 1% and Money Market Category at PKR 80 billion which was down 35% from the previous year. Changes in the tax rates applicable for corporates from investment in mutual funds contributed to the decline in the assets under management which had touched a high of PKR 520.6 billion in the month of April 2015.

The Shariah Compliant Funds category continued growing and closed the year at PKR 124 billion, recording growth of 34.64% from the previous year. Over the past decade growth of over 1200% has been seen in the Shariah Compliant Funds category which grew from PKR 9 billion to PKR 124 billion in ten years. A variety of mutual funds are being offered in this category to suit the varied needs of the investors. Almost every asset management company is offering a vast range of Shariah Compliant Funds along with the conventional Mutual Funds.

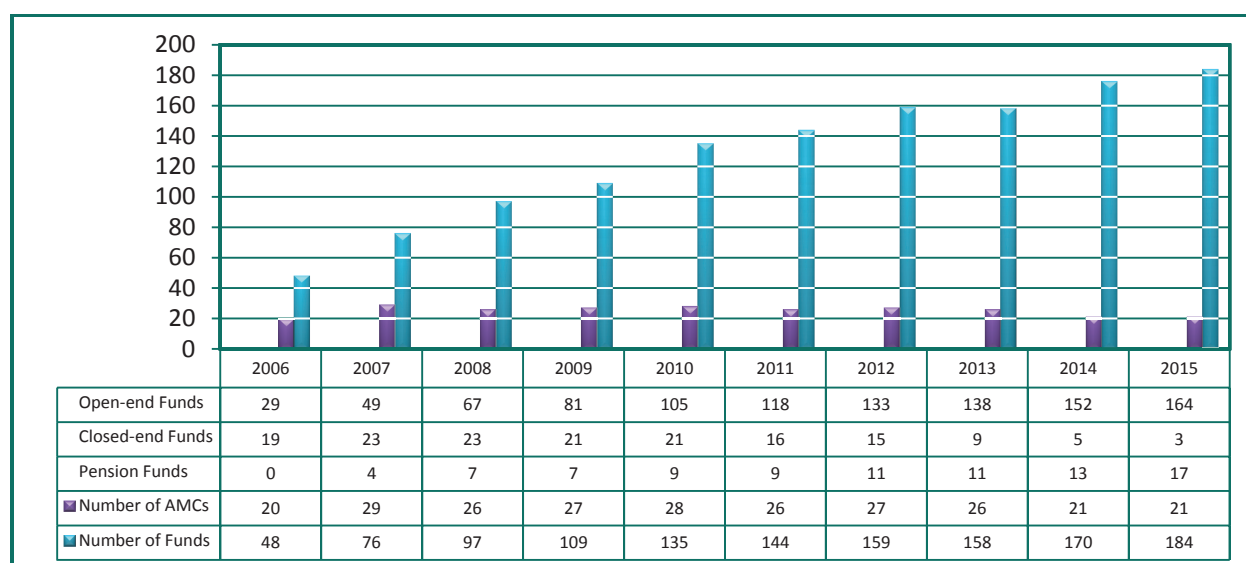


The growth of the mutual funds industry from the year 2002 can be seen in the below table:

Total Net Assets (PKR millions)														
As on June 30														
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Equity	23,449	42,701	72,916	97,143	107,312	154,269	139,157	60,953	63,195	71,240	71,352	88,909	109,345	125,899
Income	310	5,101	9,327	11,995	24,616	85,474	105,714	56,403	49,085	39,954	87,620	56,438	63,336	80,476
Money Market	-	-	-	-	-	-	114	3,282	32,050	77,312	150,509	124,418	117,385	66,681
Aggressive Income	-	-	-	-	3,986	27,879	35,781	23,143	14,019	9,340	7,862	10,130	12,345	11,694
Asset Allocation	-	-	-	131	4,099	2,437	3,744	1,790	1,552	2,277	3,136	4,290	6,406	8,342
Balanced	1,317	2,331	8,418	9,291	8,981	11,747	16,978	8,343	6,349	4,841	4,147	4,092	3,731	4,645
Capital Protected	-	-	-	-	-	2,725	6,416	7,491	8,551	3,368	853	605	-	2,675
Commodities	-	-	-	-	-	-	-	-	-	-	-	140	304	340
Fund of Funds	-	-	-	527	821	791	1,833	1,000	1,182	1,223	1,291	1,190	141	171
Fund of Funds - CPPI	-	-	-	-	-	-	-	-	-	-	-	-	2,306	4,276
Index Tracker	-	-	-	-	998	1,393	534	319	223	374	343	315	419	460
Shariah Compliant Equity	267	921	3,158	4,624	6,093	7,327	9,332	5,675	6,005	7,027	8,104	14,116	23,363	51,167
Shariah Compliant Income	-	-	-	-	-	3,162	6,618	5,868	6,132	20,888	29,944	36,414	36,783	21,028
Shariah Compliant Money Market	-	-	-	-	-	-	-	624	5,224	6,353	7,762	7,088	5,189	13,483
Shariah Compliant Aggressive Fixed Income	-	-	-	-	-	-	2,485	1,987	1,157	725	688	1,178	2,253	2,157
Shariah Compliant Asset Allocation	-	-	-	-	1,378	1,073	1,832	1,520	1,196	1,264	1,120	870	1,116	4,784
Shariah Compliant Balanced Fund	-	-	-	1,347	1,513	2,563	3,340	2,501	2,189	2,290	2,334	3,772	6,955	3,493
Shariah Compliant Capital Protected Fund	-	-	-	-	-	-	579	582	637	724	443	1,304	2,972	3,015
Shariah Compliant Fund of Funds	-	-	-	-	-	-	-	-	-	-	-	699	927	3,269
Shariah Compliant Fund of Funds - CPPI	-	-	-	-	-	-	-	-	-	-	-	-	11,533	20,671
Shariah Compliant Index Tracker	-	-	-	-	-	-	-	-	-	-	289	901	1,176	1,159
Conventional Pension Schemes	-	-	-	-	-	420	305	349	571	655	1,101	1,865	3,263	7,989
Shariah Compliant Pension Schemes	-	-	-	-	-	-	466	530	729	903	1,640	2,957	4,912	5,596
<b>TOTAL</b>	<b>25,343</b>	<b>51,055</b>	<b>93,819</b>	<b>125,057</b>	<b>159,798</b>	<b>301,261</b>	<b>335,228</b>	<b>182,360</b>	<b>200,048</b>	<b>250,757</b>	<b>380,538</b>	<b>361,690</b>	<b>416,160</b>	<b>443,470</b>



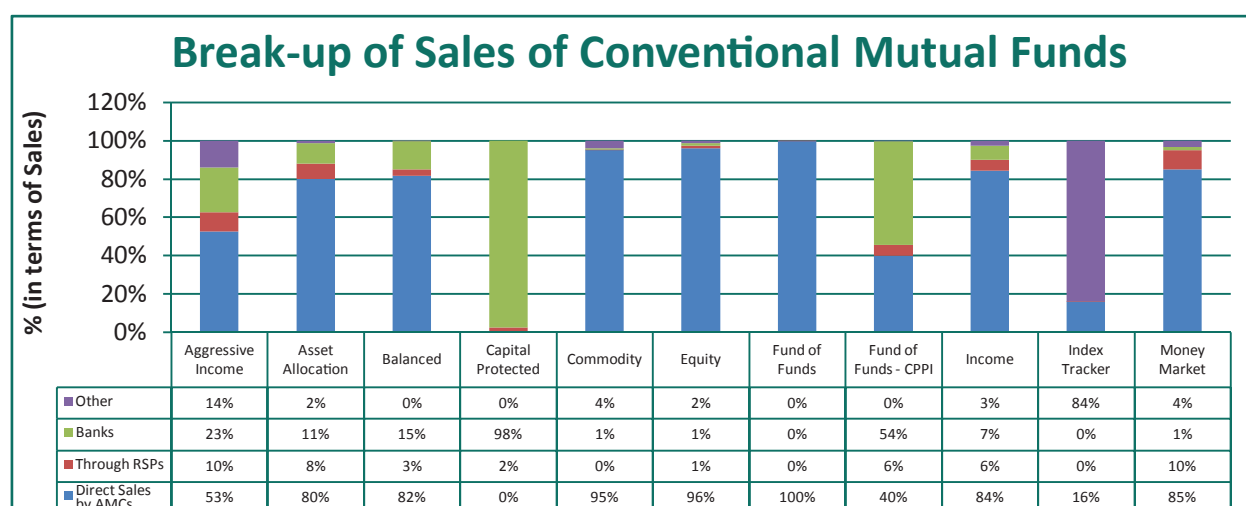
14 new mutual funds and four new pension funds managers were launched during the year bringing the total number of funds under management to 184 (164 open end, 17 pension funds and 3 closed end).



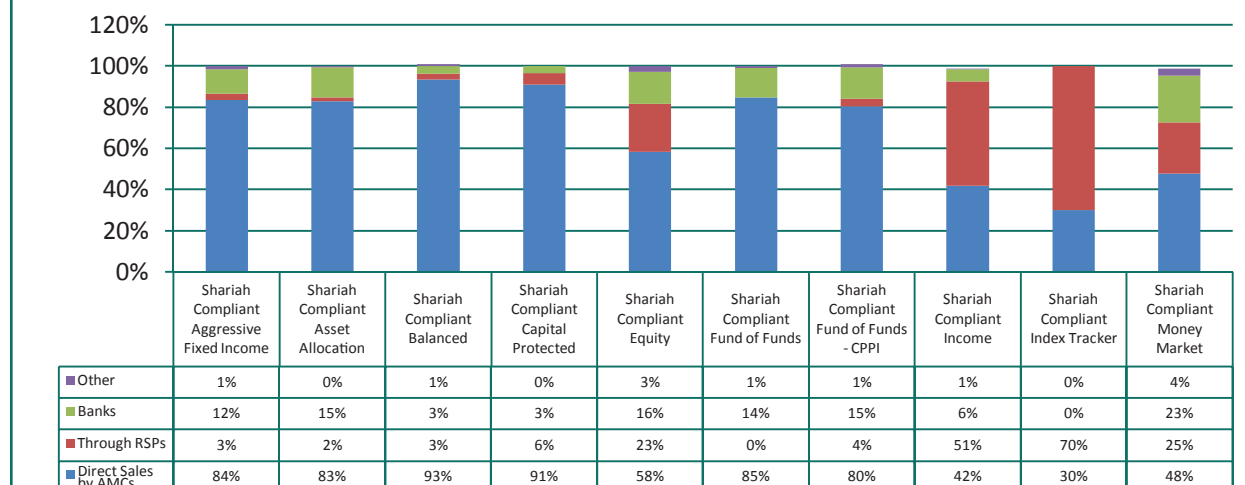
### Increasing outreach of AMCs through partnering with banks and other distributors/Registered Service Providers (RSPs)

14 new Registered Service Providers (RSPs) were registered by MUFAP during 2015. Amongst there 7 were corporate (including 2 banks) and 7 were individuals.

MUFAP has currently 47 Corporates (including 11 commercial banks) and 29 individuals who are registered as RSPs. Despite a reasonably healthy number of RSPs now operating within the Industry, majority of the sales are still done by the AMCs own sales staff as can be seen in the below graphs.



## Break-up of Sales of Shariah - Compliant Mutual Funds



Going forward under the newly amendments brought in the NBFC Regulations, SECP will now be issuing investment advisory services license to the Distributors instead of registration being maintained at MUFAP. To facilitate and expedite the process, MUFAP has recommended to SECP that MUFAP should be allowed to conduct the initial screening and paperwork, so that the licensing process can be expedited.

### Key Regulatory Changes

#### Workers' Welfare Fund (WWF)

MUFAP has consistently been emphasizing and protecting its view over applicability of WWF on Mutual Funds. MUFAP earlier challenged the levy of WWF that it cannot be imposed on mutual funds. Mutual Funds are not an establishment. Mutual Funds do not employ any workers. A "Mutual Fund" is just a scheme of collecting savings from institutional and individual investors, pooling the same in one "FUND" and then investing the same in profitable ventures for the benefit of the investors.

Through the amendments in the Finance Act 2015, Mutual Funds and collective investment schemes including National Investment (Unit) Trust or REIT Scheme, have been excluded from the definition of 'industrial establishment' subject to Workers' Welfare Fund (WWF) under the Workers' Welfare Fund Ordinance, 1971 (WWFO).

This development is a positive indicator for the progress of the industry as it will benefit the investors of the mutual funds who were being unjustly charged a levy by the Government.

### Amendments in the Non Banking Finance Companies Rules & Regulations

Amendments in the Non Banking Finance Companies Rules & Regulations were introduced by SECP towards the end of the year. Substantial changes have been introduced. MUFAP's Technical Committee Mutual Funds was very active and diligent and dedicated long hours in the review of these draft Rules and Regulations and formulated comments on the same. The same was discussed and finalized at the Board before submitting to the SECP. Executive Committee of MUFAP comprising of the Chairman, Senior Vice



Chairman, Vice Chairman and Chief Executive held two full day detailed discussions with the SECP Commissioner and the SECP team on these drafts. MUFAP remained successful in convincing the officials on many provisions. The final version that was notified was mostly in line with what had been agreed upon in that meeting.

### **Mandatory Certification for the Professionals of NBFCs**

The SECP introduced the Circular No. 11 of 2015 - Mandatory Certification for the Professionals of NBFCs dated April 13, 2015, introducing two mandatory certifications; namely Pakistan Markets and Regulations Program (PMR) and Fundamentals of Capital Market (FCM) for every employee in practically all functions of an AMC /Pension Fund Manager other than IT, HR, Admin and support staff by June 30, 2016. MUFAP has made representations to SECP that the scope of the circulars issued has been made too wide and in one go. Extending the certification requirements of the proposed PMR and FCM certifications to practically all existing employees in all functions of an AMC other than IT, HR and Admin, appears to be unnecessary and an attempt to over-regulate the mutual fund industry. Furthermore, in every jurisdiction, exemptions are provided to those market participants who have undergone an examination which is relevant and requires more knowledge than the certification exam (which is the minimum standard). This Circular recognizes no such exemptions and those who are already qualified and experienced and have been working in the mutual fund industry for a long time would also need to seek exemption under the proposed grandfathering scheme from ICM by paying a substantial amount per certification without any useful purpose. There should be exemptions available without the need to acquire grandfathering. Furthermore, the certification authority should not be restricted to ICM and should be open for other educational institutes as well as Mutual Funds Association of Pakistan who had initially started the certification process back in 2008.

### **Launch of Real Estate Investment Trust (REITS) in Pakistan**

The launch of REIT scheme in Pakistan has been under discussion for long time now. During the last quarter of FY 2015 the first REIT was launched which is a Rental REIT. The Securities and Exchange Commission of Pakistan also updated the Regulations by recalling the earlier ones and replacing them by the Real Estate Investment Trust Regulations, 2015. Introduction of REITs will bring numerous benefits to our economy such as: allowing small savers to take exposure in real estate thereby promoting savings, developing better housing and infrastructure, improving documentation of real estate transactions thereby instilling accurate property valuations, creating employment opportunities, triggering activity in over 40 sectors of the economy and enhancing revenue for the government. The Provincial governments of Punjab and Sindh had provided incentives for REITs in 2010 by providing various concessions in the Capital Value Tax (CVT), Stamp Duty and the Registration Fee applicable on transfer of real estate to and from REITs.

### **Issues and challenges**

The key issues facing the industry remain the various tax anomalies that are hampering growth and the lack of awareness amongst the masses.

- **Removal of tax anomalies**

It is important for the mutual fund industry's survival and growth that the tax anomalies are removed. On one hand the Government is offering high returns on fixed rate Government instruments and





schemes making it difficult for market return instruments such as mutual funds to compete, while on the other hand it is also imposing double taxation and levies on the mutual funds that are not present on other investment avenues. It is important that the Government removes the anomalies so that a level playing field is available for the mutual and pension funds vis-a-vis other investment avenues.

- **Public Awareness and Education**

For long term sustainable growth of the industry the retail investor base must increase. 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. Currently Individuals are holding 33% of the total assets under management. All the asset management companies must jointly combine their resources and conduct public awareness marketing campaigns as well as awareness road shows/seminars from MUFAP's platform to bring across to the attention of the individual investors, the diverse investment features and benefits that mutual funds and voluntary pension schemes offer to them. This would increase the resources available and benefit everyone as general awareness grows. The Government and SECP are also required to facilitate asset managers to promote, educate and encourage investors to save.

### **Acknowledgements**

I would like to thank SECP for their continued support. I am particularly grateful to, Mr. Zafar ul Haq Hijazi, Chairman, SECP, Mr. Zafar Abdullah Commissioner SECP, Mr. Akif Saeed Commissioner SECP, Mr. Asif Jalal Bhatti, Executive Director Specialized Companies Division, Mr. Muhammad Afzal, Director REITs & Pension and Mr. Imran Inayat Butt, Director AMCs for their proactive role in dealing with issues relating to mutual funds industry and VPS.

I am thankful to the Finance Ministry, SECP and CDC for their continued support to the industry. I hope that the Finance Ministry and SECP will continue to facilitate us to bring our regulations in line with international standards, and allow us to launch new products and services. We in turn will try our best to play our role in improving the savings and investment rate in the country; and development of our capital markets and economy.

I would like to thank the Senior Vice Chairman Mr. Shahid Ghaffar, Vice Chairman Mr. Yasir Qadri, fellow Directors, Committees' Chairperson and Committees' Members for their dedication, teamwork and support. Lastly, my thanks and appreciation to Ms Mashmoona Zehra Majeed and the management team of MUFAP for their continued commitment and hard work.

