

CEO REVIEW

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Economic & Capital Markets Overview

The economy of Pakistan continued on its V-shaped recovery post the pandemic and a strong momentum in economic activity continued during the first nine months of the FY22. The Economic Survey of Pakistan FY 22 based on these nine month numbers estimated the GDP growth rate at 5.97%, led by 7.2% growth in industrial output, 6.2% increase in services sector, & 4.4% rise in agriculture sector. Investment to GDP ratio was recorded at 15.1% in FY 22 compared to 14.6% last year.

The last quarter of the Financial Year however turned out to be challenging period for the economy which is expected to continue in FY 23. Pakistan's economy witnessed stress on account of escalation in international commodities including fuel prices, aggravated by the Russia-Ukraine conflict which was multiplied by the domestic political instability and rising trade deficit that exerted enormous pressure on foreign exchange reserves resulting in significant depreciation of PKR against USD which in turn contributed towards high inflation. Going forward, currency devaluation, high level of Policy Rates, record international commodity prices, rising inflation, elevated current account deficit (CAD) and higher outflows on the financial account, is expected to compress demand. Pakistan's economy is forecasted to slow to 3.5% in fiscal year (FY) 2023 (ending 30 June 2023) amid devastating floods, policy tightening, and critical efforts to tackle sizable fiscal and external imbalances along with double-digit inflation, as per a report by the Asian Development Bank (ADB). The KSE 100 index remained mostly bearish during the year, touching a high of 48,112.21 points and a low of 40,879.93 points during the year to close at 41,540.83 points on June 30, 2022, down 12.28% from the previous year.

Industry Overview

The total assets under management increased to PKR 1,255.68 billion on June 30, 2022 up 18.83% from PKR 1,056.69 billion on June 30, 2021. For the past five years the stock market has been on a declining trend and moving within a range bound band which has affected the unitholders of equity funds. This year again, the equity funds (both conventional and Shariah Compliant) declined by 24.21% which included both outflows and revaluation impact and stood at PKR 176.84 billion. Due to increase in interest rates and uncertainty in the economic and political situation, the investors preferred to remain on the short duration and the highest inflows were witnessed in the money market funds (both conventional and Shariah compliant) which were



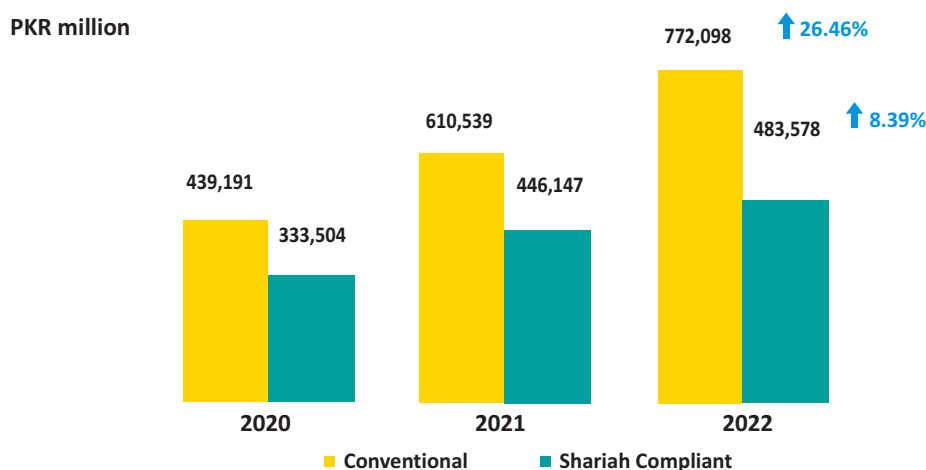
up 43.82% to close at PKR 671.53 billion followed up Income Funds (both conventional and Shariah compliant) which were up 21.81% to close the year at PKR 286.93 billion. Majority of the inflows were in the conventional categories increasing by PKR 160.37 billion, predominantly in the money market and income fund categories.

Type of Funds	Nos.	AUMs (Rs. in billion)	Nos.	AUMs (Rs. in billion)
	(As on June 30, 2022)		(As on June 30, 2021)	
Number of Asset Management Companies (AMCs)	18		19	
Open-end Funds	284	1,214.58	278	1,018.42
Pension Funds	22	40.92	19	38.12
Exchange Traded Funds (ETFs)**	6	0.18	4	0.14
Total Number of Funds	312	1,255.68	301	1,056.69
Discretionary & Non-Discretionary Accounts*		356.19		338.33

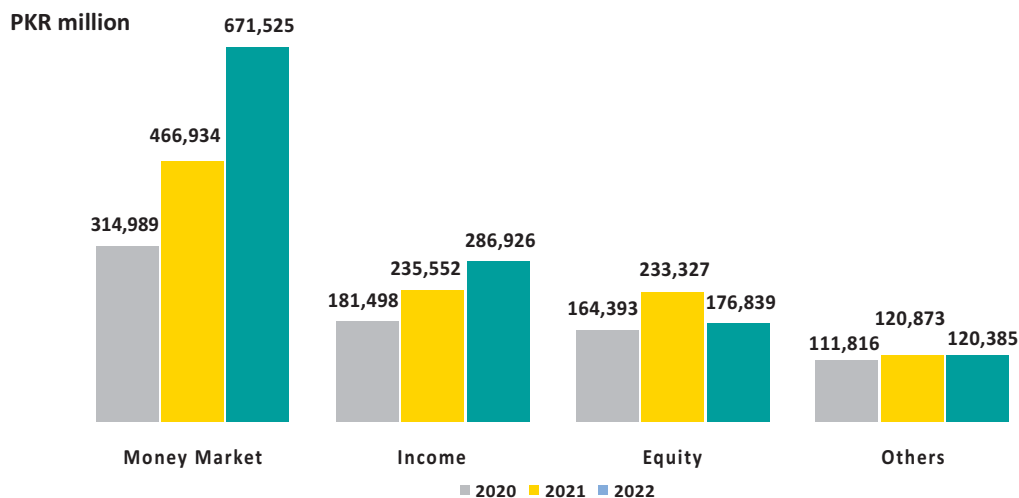
* Source: SECP Monthly Sector Report June 2022.

** Excluding Fund of funds investments. ETF size is 0.394 bn for June 30, 2022 and 0.252 bn for June 30, 2021 after including investments made in Fund of fund of same AMC.

Assets Under Management (AUM) by Conventional & Shariah Compliant (2020-2022)



Assets Under Management (AUM) by Asset Class (2020-2022)



Asset Class	PKR million			
	2020	2021	2022	%*
Money Market	314,989	466,934	671,525	↑ 43.82%
Income	181,498	235,552	286,926	↑ 21.81%
Equity	164,393	233,327	176,839	↓ -24.21%
Others	111,816	120,873	120,385	↓ -0.40%
Total	772,696	1,056,686	1,255,675	↑ 18.83%

*percentage is year over year (YoY) growth of 2021 vs 2022.

Conversion into a SRO

MUFAP continued to gear up to take on the important role of a Self-Regulatory Organization (SRO) for the mutual funds Industry. MUFAP had initiated the process of converting into Self-Regulatory Organization (SRO) last year and obtained a license under Section 42 of the Companies Act 2017 on June 29, 2021 which is a prerequisite requirement of the Section 36C of the SECP Act 1997. Subsequently, to meet the capital requirements, MUFAP converted from a company limited by Guarantee without share capital to a company with share capital and issued 503,500 share at (Rs.10 per ordinary shares) which were subscribed by all asset management companies in equal proportion.

MUFAP is actively making operational and structural changes to take on the role of a self-regulatory body balancing along with its role of an industry body thereby ensuring the healthy growth of the unit trust industry, whilst maintaining at all times, the investor interest, over and above all others. MUFAP, as an SRO body, will be regulating the operations, standards of practice, and business conduct of its members and their representatives with the intention to promote the protection of investors and the public interest through the establishment and implementation of codes and guidelines that promote ethics, discipline and equality.

To enhance its own corporate governance, MUFAP restructured its Board to comprise of 5 independent directors and 5 member directors with the Chairman being appointed from the Independent Directors. We believe, with the collective expertise of the 5 independent directors drawn from various relevant professions to assist the elected member directors from the mutual funds industry, MUFAP will enjoy substantial benefits in the form of ensuring a more independent and credible outlook.

On strengthening the Secretariat, the Board of Directors will review the year wise activities and functions of MUFAP as a SRO and will increase personnel and resources accordingly to cater for the expanded work scope. As MUFAP restructures internally to become a SRO, it is clear there will be long-term changes to the landscape that Members and their representatives, including sales agents and distributors will operate in.

MUFAP is currently working on SRO's Regulations and Regulatory Framework as well as Business Plan before it formally applies to obtain a license to function as an SRO from the Securities and Exchange Commission of Pakistan.

Key Regulatory Developments during the year

- **SECP Issues Regulatory Framework for Digital Account Opening by AMC's**

Securities and Exchange Commission of Pakistan (SECP) vide circular No. 28 of 2021 (dated October 7, 2021) has specified criteria for digital account opening for Pakistani individual customers and /or Pakistan origin (POC) holders. After representation of MUFAP, further amendments were made in the same via circular No. 32 of 2021 dated December 8, 2021.



- **Investments in Mutual Funds and Voluntary Pension Schemes through Roshan Digital Accounts**

During the year, to facilitate investments in mutual funds through Roshan Digital Accounts (RDA), the SECP removed the requirement for banks to obtain a license for distributing mutual funds through RDAs. This relaxation has been granted to facilitate overseas Pakistanis to invest in mutual funds and pension funds managed by AMCs. Later in the year the SECP also approved the process flow for investments in Voluntary Pension Schemes by Non-Resident Pakistanis (NRPs) through RDAs. The State Bank of Pakistan subsequently amended the Foreign Exchange Manual to allow investments in VPS through RDAs.

June-2022					
Number of account opened		Amount of Investment Received (Rs. In million)		No. of AMCs	
RDA	Digital Account	RDA	Digital Account	RDA	Digital Account
4,816	7,311	742.40	545.99	3	13

- **SECP specifies framework for fixed rate return mutual funds**

To facilitate growth in mutual fund industry in consultation with MUFAP, SECP introduced a new category of Collective Investment Scheme; i.e. a "Fixed rate/Return Scheme". This asset class will contribute towards expanding investor base, leading to availability of a low risk investment avenue offering small saving better returns vis-à-vis fixed term deposits.

A fixed rate return mutual fund is particularly important for those investors who prefer to have certainty of returns for their investment needs and will also effectively serve institutional investors such as provident funds, pension funds, and gratuity funds for managing their liquidity.

Reversal of Provision for Sindh Workers Welfare Funds (SWWF)

As a result of MUFAP's consistent efforts for clarification from the Sindh Revenue Board (SRB), SRB vide its letter to MUFAP in August 2021 clarified that the mutual funds and voluntary pensions schemes do not qualify as Financial Institutions / Industrial Establishments and are therefore, not liable to pay the SWWF contributions. All the Asset Management Companies, in consultation with SECP, reversed the cumulative provision for SWWF recognized in the financial statements of the Funds, for the period from May 21, 2015 to August 12, 2021, on August 13, 2021. The SECP has given its concurrence for prospective reversal of provision for SWWF vide its letter dated August 30, 2021. This was one-off event and is not likely to be repeated in the future.

Taxation Measures introduced through the Federal Budget 2022-2023

The Federal Government, via Finance Bill, 2022, proposed deletion of sections 62 and 63 in the Income Tax Ordinance, 2001 pertaining to the availability of tax credit for mutual funds and voluntary pension schemes.

Mutual Funds and Voluntary Pension Schemes are a long-term savings vehicle that channelize retail savings towards stock market and Government securities, in a pooled manner. Tax credits are essential for small savers, particularly salaried individuals to save long term for their retirement and other life goals. Tax Credits available under Section 62 and 63 of Income Tax Ordinance 2001 have been incentivizing tax paying individuals towards savings for retirement and other objectives for the last many years. In a country which has savings rate, much lower to its peer group, such measures are perhaps even more important. Such incentives are not uncommon in other countries.

Therefore, MUFAP and its members made numerous representations to the Finance Ministry and Federal Board of Revenue for restoration of the tax credits. Due to utmost efforts, the tax credit available u/s 63 was restored via final notification through the Finance Act, 2022, however tax credit u/s 62 still remains deleted.



Election of Directors

Election of Directors was conducted through e-voting for the Member Director seats in a transparent, independent and efficient manner using the services of the CDC Share Registrar Services Limited (CDCRSL). CDCRSL team's efficiency, cooperation and services were greatly appreciated by the members. Extraordinary General Meeting (EOGM) of MUFAP was held on March 28, 2022 to elect ten (10) Directors (which includes 5 members and 5 independent Directors) in accordance with section 159(1) of the Companies Act, 2017 for a period of three years commencing from March 29, 2022.

The composition of the Board after elections of Directors is as below:

Category	Names
Independent Director	Mr. Zafar Abdullah (Chairman) Mr. Aftab Diwan Ms. Fauzia Hasnain Mr. Mir Muhammad Ali Mr. Zafar Iqbal Sobani
Non-Executive Directors	Mr. Mir Adil Rashid Mr. Mohammad Shoaib Mr. Muhammad Saqib Saleem Mr. Nabeel Malik Mr. Yasir Qadri
Executive Director/ Chief Executive	Ms. Mashmooma Zehra Majeed

Board Meetings and Attendance

12 Board meetings were held during the financial year out of which 09 meetings were held prior to the director elections and 3 meetings after the elections. The details of the attendance are as follows:

No.	Name of Directors	Meetings held	Meetings attended
1	Mr. Zafar Abdullah* (Chairman from March 29, 2022)	3	3
2	Mr. Aftab Diwan *	3	3
3	Ms. Fauzia Hasnain *	3	3
4	Mr. Mir Muhammad Ali *	3	3
5	Mr. Zafar Iqbal Sobani *	3	3
6	Mr. Nabeel Malik*	3	3
7	Mr. Mir Adil Rashid *	12	10
8	Mr. Mohammad Shoaib **	12	10
9	Mr. Muhammad Saqib Saleem **	12	9
10	Mr. Yasir Qadri**	12	8
11	Ms. Mashmooma Zehra Majeed (Chief Executive)	12	12
12	Dr. Amjad Waheed (Chairman till March 28, 2022)	9	9
13	Mr. Abdul Samad	9	7
14	Mr. Kashif Rafi	9	7
15	Ms. Sadaf Kazmi	9	6
16	Mr. Khaldoon Bin Latif	9	4

* Six new directors were elected on MUFAP's board during the year, including five independent directors

** Four directors were elected who had also served on the previous board.



Key Challenges and Way Forward

It is imperative for the mutual fund industry's survival and growth that the tax anomalies are removed and a favourable and consistent environment is available for the industry to play its part in the economy's growth in line with the international practices. The mutual funds industry currently manages assets of PKR 1.2 trillion and its role in capital formation of debt and equity, both private and Government, has grown significantly over the years. The industry has the potential to be a major fund raiser for federal & provincial governments' developmental projects, and meeting government borrowing needs, thus reducing its reliance on banking system and shifting its borrowing to the general public.

In a country that has a very low savings ratio, mutual funds are ideally suited to cater to the small investors and it is imperative that all the stakeholders work together to help the savings ratio grow. In order to achieve sustainable growth, small savers should be incentivized to save. Tax Credits on mutual funds served as an important tool & encouraged small tax paying savers to save with a negligible impact on Country's revenue targets and therefore MUFAP is actively pursuing the restoration of tax credits at all levels.

Another long outstanding matter that needs to be resolved is devising the fee sharing formula between the provinces in respect of provincial sales tax applicable on the asset management services so the provinces can stop sending notices to the asset management companies.

As the labour laws have become a provincial subject, efforts are being made to have Voluntary Pension Schemes recognized as an eligible retirement scheme in the Sindh Labour laws. The same is already included as an eligible scheme under the Punjab Labour Law.

The biggest challenge remains in increasing awareness and outreach to help grow the number of retail investors. While numerous efforts are being done made by AMCs to enhance their outreach, awareness amongst the masses remains lacking. The future of the mutual fund industry is dependent on increasing awareness about the mutual fund industry and increasing the outreach to investors across the country. At present the savings of the general public are predominantly banking centric and it is important to promote and establish mutual funds as the preferred savings-investment option for retail investors. Investor awareness and education will be one of the key areas of focus by MUFAP as an SRO. MUFAP also intends to work in close co-ordination with its members, regulators and the investors, to enhance the outreach and education of the industry. Efforts will also be directed towards developing best practices to meet heightened standards expected by investors on key areas such as value-added advice, transparency and robust governance.

To create a seamless and efficient digital investment solution, MUFAP is working in collaboration with the SBP to integrate asset management companies with RAAST payment gateway through CDC. In addition, real time connectivity with NADRA is being established which will ease the initial on boarding of investors and reduce the turnaround time. Shared KYC between Banks & capital markets through CDC is another great initiative under SECP's ease of doing business efforts which will make the on boarding process very efficient. When all these pieces fit together, the on boarding and investment/ redemption process will become very seamless, simplified and investor friendly and help increase the outreach across the country. Investments in mutual funds will help bring money into the regulated and documented sector and increasing outreach is just one part of it.

Low Management fee is a key area to be addressed as the increased competition among AMCs has resulted in lowering the management fees to a level which is not feasible or sustainable. AMCs require financial strength to enhance their distribution channels, digital outreach and spend on awareness & marketing, which requires dedicated resources that can only be achieved by improving the margins of the AMCs.

Together with the members of the industry, the MUFAP will continue to strive in strengthening our relationship with the SECP and other Government agencies through regular engagement on crucial policy matters and



industry issues. MUFAP will continue to play an effective and dynamic role in providing input on a range of product development, investment, distribution, regulatory and compliance issues for the betterment of the industry. Aligning these with the protection of investors interests by incorporating values of ethical behaviour and integrity in its regulations, the result will be an industry ingrained with a business culture necessary to maintain public confidence.

Acknowledgement

I would like to thank SECP for their continued support. I am particularly grateful to Mr. Aamir Khan, Chairman SECP, Ms. Sadia Khan, Commissioner SECP, Mr. Farrukh H. Sabzwari, former Commissioner SECP, Ms. Khalida Habib Executive Director, Mr. Muhammad Abid Zaman, Director, and entire AMCs and VPS teams at SECP for their proactive role and support in dealing with issues relating to mutual fund industry and VPS. I would especially like to thank SBP for their cooperation and support in allowing and facilitating the investments in mutual funds and VPS through SCRA and RDA and enabling the RAAST payment gateway for mutual funds. I would also like to thank Central Depository Company of Pakistan for their continuous support.

I would also like to record my gratitude for the generous support I have received from members at all levels, over the years for the betterment of the industry. I would like to thank the MUFAP Chairman Mr. Zafar Abdullah, former Chairman Dr. Amjad Waheed, Board of Directors, and MUFAP Committee members for their dedication, teamwork and valuable support. Lastly my thanks and appreciation for the management team of MUFAP for their continued support, hard work and commitment.