VIS

Credit Rating Company Limited

PAKISTAN ASSET MANAGEMENT SECTOR

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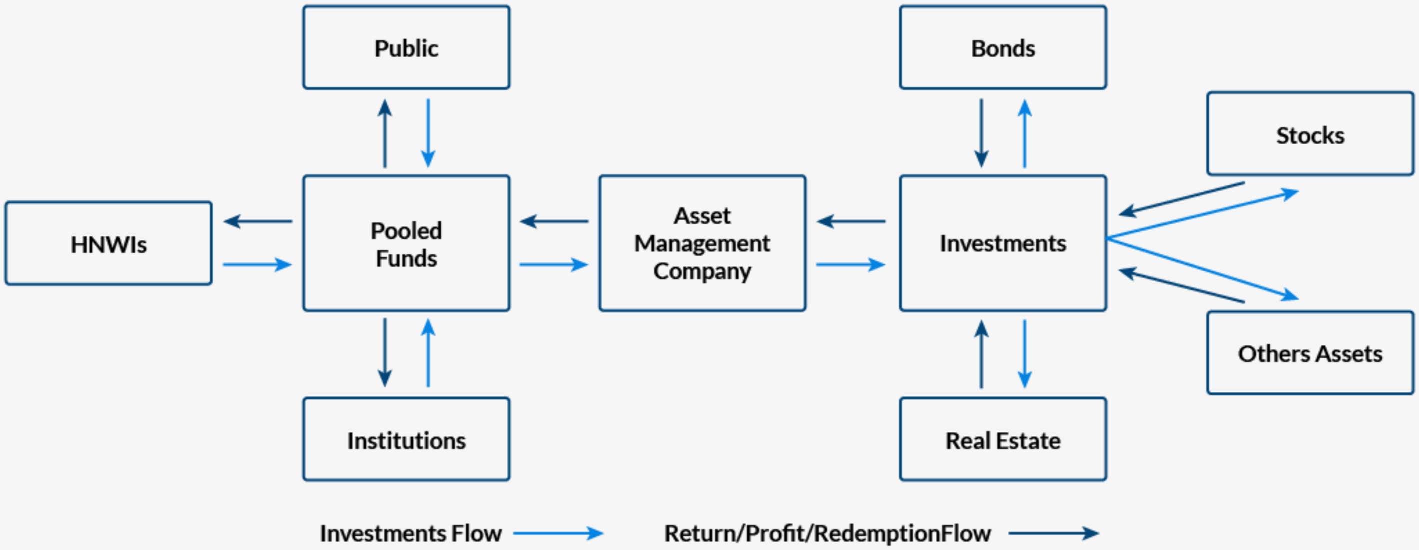
INTRODUCTION

An Asset Management Company (AMC) is a firm, which pools funds from individual and institutional investors and invests the same in the available assets in the market. The aim is to ensure higher returns to investors in exchange for a commission, fee, or charge. An Asset Management Company determines the best way of asset utilization to reap maximum profits for clients.



Almost all AMC runs on a mutual fund theme and is led by a fund manager and team. Along with high net-worth individual (HNWI) portfolios, AMCs manage hedge funds and pension plans as well as create pooled structures such as mutual funds, index funds, or exchange-traded funds (ETFs), which they can manage in a single centralized portfolio. As AMCs have a larger pool of resources than the individual investor could access on their own, they provide investors with more diversification and investing options. Buying for so many clients allows AMCs to practice economies of scale, often getting a price discount on their purchases.

AMCs are not brokerage firm though they overlap in many ways. The brokerage houses have a legal standard to provide services on best effort basis without responsibility to the fate of investment. In contrast, most asset management firms are fiduciary firms, held to a higher legal standard and must act in the best interest of their clients, avoiding conflicts of interest at all times.

AMCs vary in terms of their size and operations, from personal money managers that handle high-net worth (HNW) individual accounts and have a few hundred million dollars in Assets under Management (AUM), to giant investment companies that offer ETFs and mutual funds and have trillions in AUM. In addition to their primary function of investment management, almost all AMCs have strong research and analysis functions to support the investment decisions.

ECONOMIC REVIEW

Inflation, market volatility, and interest rate movements deeply impact performance of Asset Management market. Inflationary environment particularly impact valuation of equity funds with shift in investment to income funds as well as slow down of overall market growth. Similarly changes in government regulations may affect the attractiveness and performance of certain asset classes. For example, strict regulations on banks or financial institutions may lead to an increase in assets under management in alternative investments such as private equity or hedge funds. Conversely, regulatory changes that favor certain investments may influence investors to shift AUM into those assets.

Interest rates play a crucial role in the global asset under management market. A rise in the interest rate makes it difficult for individuals to borrow money. This can lead to a decrease in investment and spending, which impacts the performance of assets such as bonds, equity, and real estate. Interest rates can affect the performance and valuation of investments. It is necessary for firms to monitor and assess the impact of interest rate changes on their client's portfolios and adjust their strategies accordingly.

Given the foregoing economic scenario, fixed Income funds are well positioned to absorb any changes in the policy rate; the short-term equity market performance is likely to remain range bound while medium term performance is likely to be more constructive supported by a likely decline in commodity prices amid global recessionary pressures, local interest rates reverting to long-term mean level; the equity funds will therefore remain under pressure in near to medium term.

GLOBAL PERSPECTIVE

Assets under management refers to the total market value of assets managed by an investment manager or financial institution on behalf of one or more clients. Market value is the estimated monetary value of an asset, such as the monetary value of a house. Global AUM stood at USD 115 trillion in 2022 with CAGR of 5.9% during 2018-2022. North America and Europe account for over 70% of global assets. US is the largest market with over USD 53 trillion assets. BlackRock, Vanguard, State Street dominate with combined market share of over 30%. Industry is projected to grow at 6.2% CAGR to reach USD 145.4 trillion by 2025 on increasing savings and retirement assets.

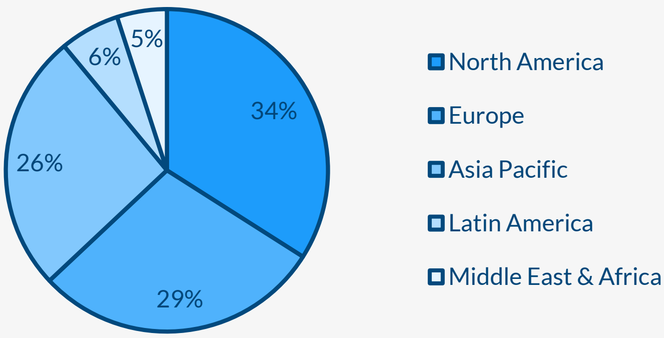
The global asset under management market is segmented on the basis of type, function, and end users. Based on the type, global asset under management market is divided into equity, fixed income, multi asset, and others. Fixed income segment holds a significant share of the market, owing to increasing investment by the consumers with fixed income. Whereas rising retail investors who traded and invest in stocks are likely to drive the equity fund market in the near future. Ease of access to investment platforms and commission-free trading in equities are projected to fuel further growth in equity fund market.

On the basis of function, the global asset under management market is divided into active and passive. The passive segment is projected to grow with higher rate as the passive funds are characterized by infrequent portfolio changes and lend themselves as a buy-and-hold approach. Passive investment strategies are highly adopted by customers for long-term investment.

In terms of end-user, the global asset under management market is fragmented into retail and institutional. The institutional segment is anticipated to grow at higher CAGR in the near future as they seek risk-controlled return on investment. Institutions both in developed and developing countries are increasingly investing in assets to seize opportunities for hedging regional risks.

The asset management market can be regionally analyzed into North America, Europe, Asia Pacific, Latin America, and the Middle East and Africa. In North America, the market is driven by the presence of major market players and the early adoption of advanced technologies. The region's well-established infrastructure and regulatory framework support asset management growth.

Global Asset Management Market - 2022



Below are the world's top ten asset management firms ranked by AUM, eight of them are US investment companies.

Rank	Company	Country	Total AUM, US$b	Balance sheet
1	BlackRock	US	9,090	03/31/2023
2	Vanguard Group	US	7,600	03/31/2023
3	Fidelity Investments	US	4,240	03/31/2023
4	State Street Global Advisors	US	3,600	03/31/2023
5	Morgan Stanley	US	3,131	03/31/2023
6	JPMorgan Chase	US	3,006	03/31/2023
7	Goldman Sachs	US	2,672	03/31/2023
8	Credit Agricole	France	2,660	03/31/2023
9	Allianz Group	Germany	2,364	03/31/2023
10	Capital Group	US	2,300	03/31/2023

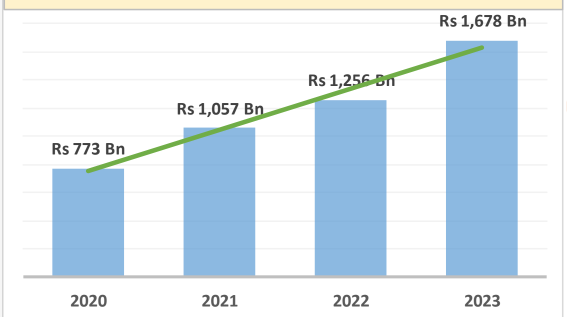
A rising middle-class population, a gradual shift of investors from deposits to financial assets, and longer retirement periods have created a need for managing valuable asset data in the industry, which is fueling the market in the near future. Continuous efforts to innovate have led to an abundance of new products in the asset management market, but investors have gravitated to products with established track records. The aggressive tactical allocation and hedging strategies to adapt to changing market conditions due to the geographical spread of exposure are expected to positively support the global assets under management in the coming years.

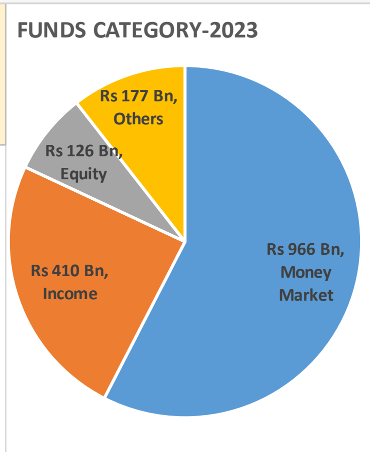
Going forward the asset management sector is expected to undergo a huge transformation to reinvent itself in the face of fee compression, mounting cost pressure and fierce competition. The industry will be more digitized and efficient in the future, with a strong focus on building a better customer value proposition. Environmental Social and Governance (ESG) sensitive investing is also likely to grow substantially.

PAKISTAN ASSET MANAGEMENT MARKET

Asset management is a buoyant market in Pakistan. As of August 2023 there were 20 AMCs in Pakistan with over Rs 1.678 trillion (c. USD 5.5 Bn) of assets under management. The funds have grown at an impressive CAGR of 29.5% during the last four years.

AUGUST 2023
Assets Under Management: Rs 1,678 Bn
Total Number of Funds: 300
CAGR 2020 -2023: 29.5%





MAJOR PLAYERS

The Asset Management Company in Pakistan is a Non-Banking Finance Company (NBFC) regulated by the Securities and Exchange Commission of Pakistan (SECP) in accordance with the Companies Ordinance, 1984 and the NBFC & NE Regulations, 2008. Whereas Mutual Funds Association of Pakistan (MUFAP) is the trade body for Pakistan's asset management industry. MUFAP role is to ensure transparency, high ethical conduct and growth of the mutual fund industry. All Asset Management Companies (AMCs) and Investment Advisory (IAs) licensed by SECP to launch Mutual Funds and perform Investment Advisory Services are required under NBFC Rules 2008 to become Members of MUFAP.

As of August 2023 Al-Meezan Investment Management was the largest AMC in Pakistan in terms of AUM followed by NBP Fund Management Limited. AMCs with over Rs 100 Bn AUM (80% of all funds) are as under:

LEADING AMCS IN PAKISTAN - POSITION AS OF AUGUST 2023			
Rank	Asset Management Company	Sugar Consumption (Million Tons)	Market Share
1	Al-Meezan Investment Management Limited	297,281,600	18%
2	NBP Fund Management Limited	238,416,376	14%
3	HBL Asset Management Limited	182,640,351	11%
4	UBL Fund Managers Limited	158,694,144	9%
5	MCB Investment Management Limited	144,351,002	9%
6	Alfalah Asset Management Limited	112,344,873	7%
7	ABL Asset Management Company limited	107,664,033	6%
8	Faysal Asset Management Limited	106,905,489	6%

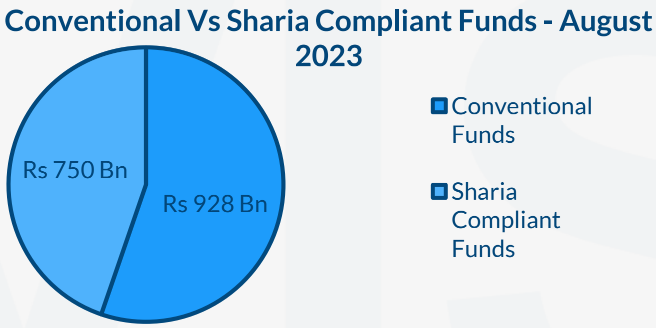
PRODUCT OFFERING

The investment products offered by AMCs in Pakistan can be classified broadly under (1) Money Market Funds -a kind of mutual fund that invests in highly liquid, near-term instruments such as cash, cash equivalent securities, and high-credit-rating debt-based securities with a short-term maturity and are intended to offer investors high liquidity with a very low level of risk (2) Income Funds - are mutual funds or ETFs that prioritize current income, often in the form of interest or dividend-paying investments; may invest in bonds or other fixed-income securities as well as preferred shares and dividend stocks and are often considered lower risk than funds that prioritize capital gains (3)Equity Funds -is a mutual fund that invests principally in stocks and (4) other types of funds includes capital protected funds , index funds, asset allocation fund, fund of funds etc.

Category-wise, money market funds have grown substantially from Rs 314,989 million in 2020 to Rs 966,885 million (+207%) in 2023 followed by income funds (+126%), while size of the equity funds has reduced by 24% in the same period. Overall total size of all funds has more than doubled from Rs 772,696 million to Rs 1,678,102 million during the last four years as under:

Asset Class	Rs in million			
	2020	2021	2022	August 2023
Money Market	314,989	466,934	671,525	965,885
Income	181,498	235,552	286,926	409,673
Equity	164,393	233,327	176,839	125,694
Others	111,816	120,873	120,385	176,850
All Funds	772,696	1,056,686	1,255,675	1,678,102

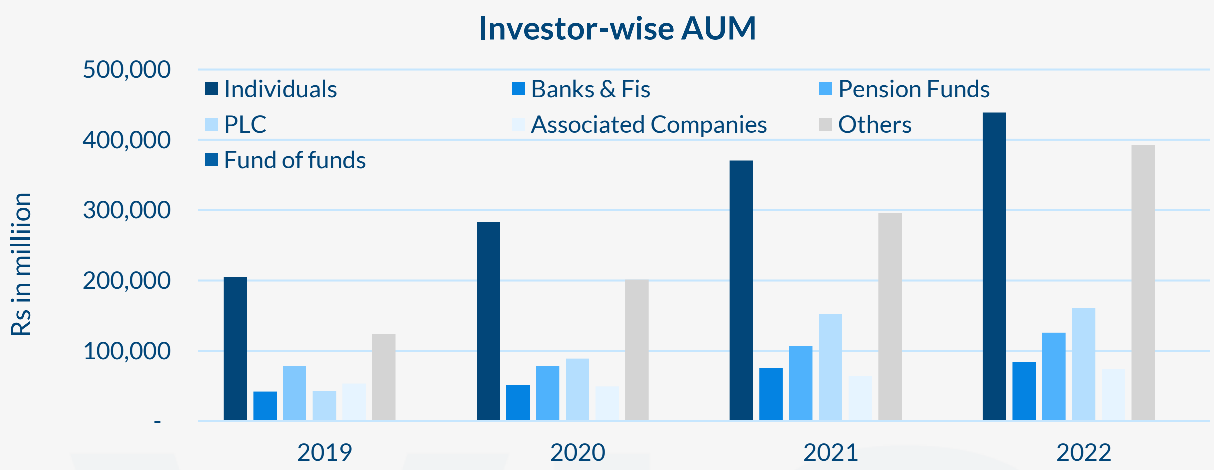
Another classification of funds in local market is based on conventional and sharia complaint funds. Share of Sharia Compliant AUM has grow steadily from 43.16% in 2020 to 44.72% in 2023.



INVESTOR BASE

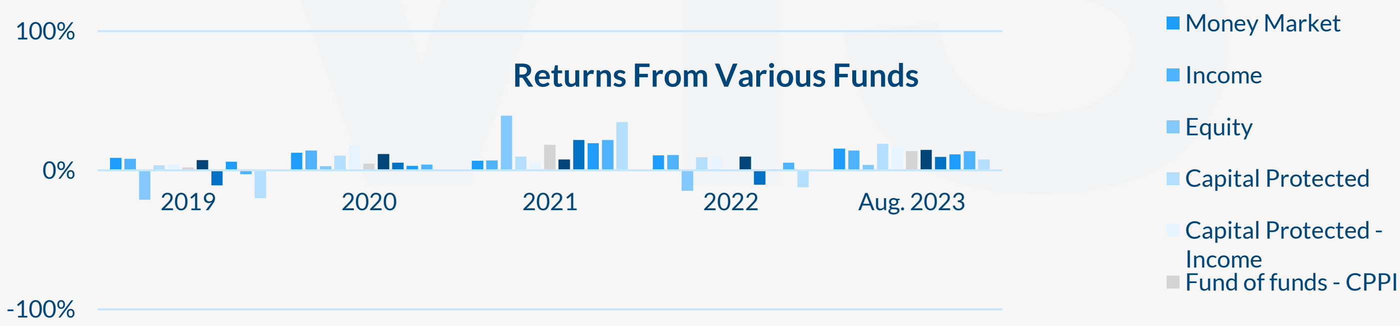
Individual investors dominate the Pakistan asset management market having share of 34% in net asset value (2022) and 98% in number of accounts. Pension funds, FIs, pulic companies and associated companies hold 34%, fund of funds 2% and the remaining 30% is held by other investors.

Investor Class	Net Asset Value (Rs in million)				Number of Accounts			
	2019	2020	2021	2022	2019	2020	2021	2022
Individuals	205,121	283,281	370,740	438,753	383,943	428,731	516,988	580,940
Banks & FIs	42,123	51,881	75,664	84,396	713	790	746	789
Pension Funds	77,616	78,673	107,092	125,659	3,456	3,670	3,395	3,827
Public Limited companies	43,041	88,801	152,144	161,061	559	599	464	520
Associated Companies	53,435	49,323	63,783	73,806	348	415	439	511
Others	124,194	201,301	296,086	392,259	5,510	11,372	5,460	6,669
Fund of Funds	33,233	16,204	17,438	20,257	-	-	-	-
All Investors	578,763	769,464	1,082,947	1,296,191	394,529	445,577	527,492	593,256



RETURNS

Among all funds, money market funds have performed well giving increasing return from 8.85% in 2019 to approximately ~16% in August 2023. Income funds have also shown similar improving returns from 8.24% in 2019 to ~14% in August 2023. Returns from equity funds are characterized by volatility as shown by return of -21.26% in 2019 with sharp increase to 39.39% in 2021 followed by loss (-14.71%) in 2022 and marginal return of about 4% in August 2023. A similar performance is expected in near term.



SECTOR DYNAMICS

MARKET DRIVERS

Growing consumer disposable income is contributing to the market growth associated with increasing consumer saving and wealth accumulation. Higher disposable income allows individuals to save more money and these saving can be further invested. According to European Commission Organization, worldwide number of households with the disposable income is rising. These households are widely investing in the asset under management.

Although Artificial Intelligence (AI) adoption in the asset management market is still in its infancy, however asset managers are increasingly recognizing its potential to enhance performance. Implementation of AI tools provide more accurate investment recommendations, automate portfolio management, and improve customer service, leading to growth in the industry. Automated monitoring and reporting are another area where technology is impacting the asset management market, enabling real-time tracking of asset performance, early issue identification, and proactive corrective actions to prevent costly downtime and repairs. Also, asset management firms are moving towards digitization by providing paperless account opening and Know Your Customer/Anti Money Laundry compliance solutions, which makes it more convenient for investors to conduct business with them. Security & Exchange Commission of Pakistan (SECP) plan to introduce Digital AMCs to facilitate investors and increase investor base, by reducing paperwork, providing services remotely, and leveraging customer data.

MARKET RESTRAINTS

The asset management market faces several challenges, including regulatory compliance, competition, changing investor preferences, and cybersecurity threats. Adhering to regulatory standards is time-consuming and costly for asset managers due to constantly changing -40% -20% 0% 20% 40% 60% 2019 2020 2021 2022 Aug. 2023 Returns From Various Funds Money Market Income Equity Capital Protected Capital Protected - Income Fund of funds - CPPI Aggressive Fixed Income Balanced Asset Allocation Fund of funds Index Tracker requirements. The increased compliance burden can result in higher operational costs and additional administrative work for asset managers, potentially impacting their profitability. Intense competition is another challenging factor. The asset management market is becoming increasingly competitive, with new entrants and innovative products and services putting pressure on established players.

MARKET OPPORTUNITIES

In the asset management market, various opportunities are emerging, including the integration of innovative technologies such as artificial intelligence, machine learning, and block chain, which can automate processes, enhance decision-making, and deliver superior client services. This can lead to cost savings, augmented efficiency, and optimized performance. Additionally, the expansion of emerging markets offers a promising opportunity for asset managers. As these economies continue to progress, the demand for investment services is rising. Moreover, the rising demand for sustainable investing offers a significant opportunity for asset managers who can incorporate environmental, social, and governance (ESG) factors into their investment decisions to cater to a growing number of investors who prioritize sustainable investments.

Moreover, as life expectancy increases and pension systems face challenges, retirement planning has become crucial. Asset managers can seize this opportunity by offering retirement-focused investment products and services, such as target-date funds, annuities, and retirement income strategies. It can help clients accumulate savings, optimize investment portfolios, manage risks, and ensure a sustainable income stream in retirement. The continuous growth in the aging population and increasing awareness of retirement needs, asset managers that cater to this market can attract clients seeking financial security and peace of mind in their retirement years.

SECTOR ISSUES

- Pakistan's key challenge is to improve the savings rate. Low saving rate discourages investment in general and in mutual funds in particular.
- Low penetration and awareness of mutual funds - Mutual funds make up less than 3% of the financial assets in Pakistan, compared to over 15% in other emerging markets. Limited awareness and trust in mutual funds among retail investors is a key constraint.
- Concentration of assets under management - The mutual fund industry is highly concentrated with the top 8 AMCs (Rs 100 Bn plus AMCs) managing over 80% of total assets. Lack of competition limits product innovation.
- Limited product offering - Equity funds account for over 80% of mutual fund assets in Pakistan. There is limited availability of fixed income, money market and other fund categories that cater to different investor risk appetites.
- High expense ratios - Due to lack of economies of scale and competition, expense ratios of Pakistani mutual funds remain high compared to other markets. The average expense ratio is over 2% compared to less than 1% in India.
- Regulatory bottlenecks - Onerous compliance requirements, lengthy product approval processes and limitations on investment options constrain growth and innovation in the mutual fund industry.
- Lack of retirement savings culture - The absence of dedicated retirement savings limits the customer base for mutual funds.
- Weak distribution networks - Beyond banks, there are limited third-party distribution channels for mutual funds leading to concentration in few large cities.

SECTOR OUTLOOK

Overall outlook is Positive for Pakistan assets management sector given low penetration, underdeveloped capital markets and large untapped retail investor base. With supportive regulations and digital advancement, the industry is well placed to maintain strong growth. However under the prevailing inflationary and high interest rate environment, income funds are expected to perform well while the equity funds will remain under pressure in near to medium term. Moreover share of Sharia compliant funds will continue to rise at a higher rate.

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RESEARCH & PUBLICATIONS

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