

FAML gardens your investment with great love and care

With prudent risk management and sustainable business model, FAML aims to launch 2 new funds. Salman brushes aside the liquidity problem with a smile depicting FAML's financial soundness. MF presents Salman's insightful views on liquidity crisis and the company's strategy.

Interview by: Baqar Jafri

TFD: What are the causes and repercussions of SECP's decision to freeze redemptions for equity funds?

CEO : After the flooring of KSE 100-Index, price discovery mechanism has dried out bringing volumes to the lowest ebb. But this self imposed flooring has nothing to do with Mufap. The issue arises when investors ask for redemptions at the time when NAV can not be discovered. Even if the market declines by 30 per cent, after the flooring is removed, we would discover the price and move on with market mechanism. The funds should also have been frozen the day KSE Management floored the market. With this rather late response, Mufap is trying to stop investors take unfair advantage of this situation. Suppose we have 40 per cent cash and 60 per cent stocks in our Balanced Growth Fund and the fund has pooled in investments from 10 investors each having 10 per cent of the total fund size. In the current scenario when 6 investors come for redemptions, we can entertain 4 of them with cash, but for others, we would sell stocks which we can not due to flooring. So the first four investors got unfair advantage. Even if we sell off the stocks in sinking market to entertain the redemption request, the NAV will plummet making redeeming investors worse off. This sell off would infuse yet another selling trend in KSE deteriorating the situation further. Mufap is trying to mitigate the probability of this sell off arising from possibility of redemptions.

Our sustainable business model is key to FAML success

Shunning off the blind race of returns, we focus on long-term sustainable business model whereby we avoid short-term injection of hot money by financial institutions that enjoy short-term gains and give long-term pains through haphazard redemptions resulting in severe disruption of our portfolios. People approach us many times with large short-term investment checks but we respectfully refuse because our business model does not permit us to run ad hoc and fall, but to grow slowly and win surely in this highly competitive environment. This does not mean that we can not handle very large investors. To the contrary we have the inherent capacity to provide service to very large customers and can also customize investment portfolios for their individual needs. Our counterparts who relied unnecessarily on short-terms floods of bank funds are now in jeopardy. We don't focus on building an astronomical size at any cost, but we believe on long-term sustainable growth of returns and portfolio. Redemptions can disrupt your fund portfolio only when a handful of investors make up a dominant chunk of your fund or when you rely on financial institutions looking for short-term gains. We at FAML don't let concentration issue affect our fund management. So smaller redemptions are always recovered by continuous inflows which keeps the fund stable. We must understand that higher risk might post higher returns but the downside risk is always looming on it.

TFD: How important are bond, debt and option markets to mitigate speculation in KSE?

CEO : I have long advocated the gradual establishment of bond, debt, derivative and option markets. In absence of these secondary markets, the speculative modes will keep the mainstream stock market highly volatile. In America the derivative market capitalization is actually higher than the stock market, which is why the derivative market absorbs the shocks resulted from speculations. If we had an option market, the brunt borne by KSE would have shifted to option Market, making KSE far less vulnerable to the mess of speculation. As far as the issue of flooring and halting of trade is concerned, all mature economies often halt the trading in anticipation of abnormality in market sentiments. This proves to be fruitful because it gives investors time to think and avoid panic selling. U.S. stock markets freezes share trading even for company announcements. I am not advocating the floor set at KSE here but would like to promote active trading in secondary markets focusing on debt and derivative side.

TFD: How has SECP's freeze on Equity Fund Redemptions impacted investors' sentiments?

CEO : It has caused undue Panic and nothing else. On a large scale, investors' confidence on Mutual Funds would be negatively affected. The effect of redemption issue was not severe but mediocre reporting by media has added fuel to the fire. The rumours about funds' inability of meet redemptions resulted in panic redemptions in Income and Money Market Funds. All AMC's have entertained the redemption requests fully. This has been confirmed at the MUFAP level and communicated to the SECP.

Global financial crisis may disturb our exports in long-run

Pakistan will not bear the brunt of global financial crisis because our financial system is not interwoven with western countries. Although there is no direct implication of global meltdown on Pakistan, yet as consumer demand in the West shrinks, Pakistan will face its after-shock in terms of low exports to the West which can hamper our already deteriorating Balance of Payments. But we are not an export oriented country, so with proper sustenance strategy and emphasis on agriculture, Pakistan would be back on track with some challenges even if the global crisis further escalates. Only the outflow of Foreign Portfolio Investments is the ramification of global financial slowdown. Against that remittances have ascended to phenomenal levels. As far as developed economies are concerned, they have sufficient liquidity but investors' confidence has shaken causing historical downslide. Same is the case with Pakistan where investors' confidence has dried out. We just require revival of confidence with a few positive initiatives for the economy and the equity markets.