

# Asset Management Companies in Pakistan

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## Mutual fund industry has a long way to go

An interview with **Salman Haider Sheikh**, Chief Executive Officer, FAML

**By Sheher Bano**

**Ques: Brief us about the working of FAML?**

**Ans:** Formed in 2003, Faysal Asset Management is a joint venture of Islamic Investment Company of the Gulf (Bahamas), (IICG), Faysal Bank and AKD Securities. These companies bring together collective wisdom of managing over Rs. 100 billion in the local as well as international markets. The basic vision of FAML was to take maximum benefit from the vibrant investment climate in Pakistan. Faysal Bank utilising its long-term vision was one of the first banks in Pakistan to launch an Asset Management Company.

**Ques: Since inception how many funds have been launched?**

**Ans:** Back in April 2004, the first fund Faysal Balanced Growth Fund was launched. Having a clear balanced strategy, the Fund comprised 70% equities and 30% fixed income securities. The fixed income portfolio provides a regular income stream while the equity portfolio focuses on value and growth stocks to provide constant dividend yield and long-term capital appreciation to investors. The public response was tremendous towards this fund. At the time of launch the fund's size was Rs 1.6 billion and it was considered as one of the best funds with the highest seed capital. The fund earned a lot of investors' confidence. During the last 3 years, the Fund has given over 20% average annualised return and over 70% since inception return to the investors.

The second fund, Faysal Income and Growth Fund was again based on an asset allocation model and was a hybrid fixed income fund. Presently, it is the only hybrid fixed income fund in Pakistan with 90% fixed income securities and 10% provision of equities.

Last year the return on Faysal Income & Growth Fund was 12.75% which is the highest ever dividend paid by any income fund in the history of the country and that in itself is a big achievement of FAML. Currently the fund size has increased to over Rs. 3 billion. The third fund, Faysal Saving Growth Fund, which is a pure money market fund was launched on May 12th this year. At the time of launch its size was over a billion rupees and currently we are standing at over Rs 2.5 billion size. Besides these funds, we are plan-

ning to launch new innovative products for the Pakistani market soon.

**Ques: What suggestions would you give to the new investors in mutual funds?**

**Ans:** The individual investment decisions are based on various factors and the risk factor is calculated on the basis of age, size of the family and savings. However, one should seek the advice of the professionals, while making investment decisions, in order to know the investment options as well as the risk involved in it.

**Ques: The mission of Faysal Bank is the introduction of a just and equitable financial system by being a world-class multi purpose financial institution How have you been able to accomplish it? What is the scope of Mutual funds in Pakistan?**

**Ans:** Firstly, there is a collective wisdom of three companies and then the system itself has given the people confidence over a period of time. Our income fund has an A+ stability rating, which denotes very high degree of stability of the portfolio keeping in mind the higher returns offered by the fund.

As far as performance is concerned, the asset management industry is in its infancy. The private sector has recently entered into this arena, in order to have real comparison; we'll have to wait for a few more years.

**Ques: Do you have any individuals investors in the portfolios?**

**Ans:** Absolutely, our main focus has been on the retail sales during the last 1-1/2 years. Although, the first fund was launched on the basis of corporate fund but the viable corporate and business strategy in the long run is to have a proper mass of corporate and retail customers. Presently, we have over 86% retail customers in our portfolios, which is a huge shift of focus in terms of family institutions as well as corporate or retail. Besides, there are new taxes on the investments made by banks (in mutual funds). These changes on the tax side will have lasting effects on the growth

of mutual funds. We have deployed our sales and marketing teams through Faysal Bank branches in Karachi & Lahore to increase our retail base. We are also expanding in Faisalabad and Islamabad currently, but our expansion plan is meant for the whole country. In Pakistan, the deposit ratio in the mutual funds is close to 4%, which is much lower than India (8-9%) and the USA (over 100%). This is all because the mutual funds have grown in size during the past few decades. In America, if somebody wants to start with \$2000 for his retirement plan, then this investment comes through mutual funds. Even the private insurance companies are linked with mutual funds. Keeping this scenario in mind, we have a long way to go. Tremendous growth is expected in the next 5-10 years.

**Ques: Do you have any plans for the rural areas of Pakistan, which comprise more than 60% population of Pakistan?**

**Ans:** Education is the main issue in mutual funds for understanding the investment options not only in cities but also in rural areas. Even in the metropolitan cities, a lot of people after losing their hard earned money at the hands of so called finance companies, look for security of their investment. Presently, our main focus in rural areas is to educate people. During the last two years, we have educated customers through different programmes, seminars and media.

**Ques: What are the criteria for investment of clients?**

**Ans:** A normal investor needs to have minimum of Rs 5000 investment to start investing with and subsequent investments can be made with as little as Rs 1000. The investor can diversify his/her investment through mutual funds investment, which have less risk than stocks.

It is a healthy sign that now people are looking at mutual funds because the inflation is very high in the country. An average bank deposit doesn't

compensate for this inflation in the longer run. So people are ready to take a little risk and invest in mutual funds. Our profit ratio is even for all of our customers whether they are investing Rs 5000 or Rs 5 billion.

**Ques: What is the level of risks in these funds?**

**Ans:** Savings Growth Fund is the least risky because it is 100% money market fund. The 2nd is Faysal Income & Growth Fund with 90% fixed income and 10% equities, last year we had an average of 2% equities so that is minimized risk, yielding very high returns, the 3rd one the Balanced Growth Fund carries the highest risk and it has 70% equities and 30% fixed income. It has given 70% plus return during the last 3 years because the higher the risk, the higher the returns.

**Ques: What marketing strategies do you adopt for your products?**

**Ans:** It is a two-way strategy. One is for corporate institutions while the other is for retail clients. The marketing strategies are mainly based on educating investors about different products through direct and indirect marketing methodologies. At the same time, we are also increasing our size through our distribution network. We have also signed distribution agreements with major banks, investment companies and brokerage houses to distribute our funds to their clients. Besides, we are also engaging insurance companies and other companies in the financial sector to distribute our funds to the clients. This strategy has been working well for the past 1-1/2 year since it has been in place.