

Our Capital Markets are One of the Best Performing Markets...

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Salman Haider Sheikh has over 10 years of international experience of investment banking and the securities business. He has held securities licenses of series 7, 63, 3 and 24 issued by the National Association of Securities Dealers, (NASD) New York. Prior to joining FAML, Salman was Executive Vice President at Tradease Securities, based in New Jersey, USA. He has managed over \$60 million in equity portfolio and participated as a team member in venture capital and investment banking syndications of over \$1 billion. Salman has also worked for organizations like Wachovia Bank, Bear Stearns and Merrill Lynch. He holds an MBA from Rutgers University with concentration in finance. Money recently talked to the CEO, Faisal Asset Management Ltd. Here are excerpts from the interview.

Money: What is the real potential of MF for mainstream investment in Pakistan?

CEO: Even though the oldest mutual fund dates back to the 60's, the private asset management industry is relatively new in Pakistan. Pakistan is an emerging market. The country witnessed high level of GDP growth in the recent past. This growth includes growth in all the segments of the economy. All three segments namely industrial, service and agriculture have shown growth. This growth is reflected in the returns of our capital markets. Our capital markets are one of the best performing markets among the emerging countries around the globe. We are hopeful that due to the continuation of current fiscal policies and geo-political stability we will see continued growth both in the economy and the capital markets. The privatization process has also spurred growth in the overall investment climate.

The continuation of fiscal policies has boosted the investor sentiment both internally and externally. We are witnessing increased international interest in our assets as well as in our capital markets. The mutual fund industry is growing in Pakistan and the numbers of new companies along with the assets under management are on rise. The largest mutual fund company, NIT, is being privatized. All these factors have compelled the individual and corporate investors to seriously consider long-term investment options

through professional asset management companies. The level of competency has increased with new research companies and large banking institutions entering the asset management business. I believe that there is a need for increased education regarding mutual funds in our country. With proper education and distribution network we can attract a large number of investors in our capital markets through mutual funds.

The other reason for growth will be new innovative products being offered to the investors. Currently people can invest through the equity, balanced equity, hybrid fixed income, pure fixed income and short-term money market funds. Investors will see new asset classes being introduced in the near future through Real Estate Investment Trusts. These efforts from Securities & Exchange commission and the private mutual fund industry will in turn grow the asset base and attract a large number of customers towards our capital markets through the mutual fund industry.

Money: How have your funds performed to date?

CEO: FAML launched its first open-ended fund, Faysal Balanced Growth Fund (FBGF) in April 2004. FBGF has a balanced asset allocation model and approach highlighting diversity and steady growth for the investors. FBGF seeks to provide regular income and long-term capital appreciation with a conservative risk profile and a medium to long-term investment horizon. FBGF's investment philosophy is to provide stable returns to its investors by maintaining a balanced investment portfolio. The asset allocation model of the fund allows up to 70% maximum investment exposure in equities while maintaining 30% investments in fixed income. Presently the fund size is over Rs. 2 billion. The fund had an approximate return of 40.5% up to march 31st, 2006. This is the return for 9 month period. The board of directors of FAML also approved an interim dividend of 20% as bonus units from distributable profits of FBGF for the half year ended December 31st, 2005 for unit holders. The fund had earlier declared a dividend of 12.50% for financial year ending June 30th, 2005. Comparative analysis of similar category funds indicate that FBGF is one of the best performing funds of the year adjusted to 70% maximum equity exposure limit of the fund. FAML successfully launched its second open-ended mutual fund, Faysal Income & Growth Fund, (FIGF) in October 2005. FIGF has a specific asset allocation model providing diverse long-term returns to its investors. FIGF seeks to provide its investors a high level of current income consistent with reasonable concern for security of principal. FIGF is established to meet the investment objectives of corporate and institutional investors who are seeking a high level of yield while maintaining security of principal as prime objective. FIGF's investment philosophy mandates that at least 90% of the Net Asset Value of the fund will be invested in fixed

income instruments and up to 10% exposure can be taken in the equity securities issued by blue chip companies. The fixed income portfolio can contain at least 63% GoP bonds, i.e. T-Bills and PIBs and 27% in secured and rated listed corporate sector bonds i.e. TFCs having a minimum investment rating of A and above. FIGF had an annualized return of 12.41% as of March 31st 2006. The fund was launched with seed capital of Rs. 250 million. Presently the fund size is approximately around Rs. 1.1 billion representing the increased investor confidence in assets managed by FAML. Today, FAML proudly manages approximately 20% of the privately managed open-ended mutual funds in Pakistan.

Money: We have seen many new asset management companies being launched recently. How can you stay competitive?

CEO: I believe that asset management is one of the fastest growing segments of the investment sector in Pakistan. Majority of the banks are either launching or thinking of launching an asset management company today while the KSE-100 index has grown to a record 12000 level. Faysal Bank launched its asset management company with a vision and keeping the economic and capital market growth in mind. FAML is working diligently to launch new mutual funds according to the needs of investors in Pakistan. I worked over 9 years professionally on Wall Street in New York, USA with major financial institutions before joining FAML. I believe that along with the launch of innovative funds, we have to focus on providing the best customer service. FAML takes pride in its service and treats its customers with great importance and regard. The company also provides extensive information and daily NAV price of its funds in newspapers and on its website.

Money: What impact will the privatization of NIT have on the mutual fund industry in Pakistan?

CEO: National Investment Trust Limited (NIT) is the largest mutual fund in Pakistan outside the private sector. The government has decided to privatize NIT. Faysal Bank is also one of the beneficiaries of this privatization. FAML has also submitted its expression of interest for the privatization of NIT. I believe that this privatization will add a spark to the private mutual fund companies. It will add to the overall assets under management in the private mutual funds in Pakistan. We will see new funds in line with the demands of the investors. I believe that real growth always comes from the private sector and the government's job should be to facilitate and help maintain this growth. I see this

privatization as a long term positive for the overall asset management industry in Pakistan.

Money: Where do you see the Mutual Fund industry 5 years from now?

CEO: If you look at the overall economic data, all three segments of the economy are showing signs of growth. Agricultural, industrial and service sectors have all added to the economic boom. The growth in GDP, foreign reserves, FDI, Portfolio investment, exports are all indicating positive growth. Government is trying to tame inflation while maintaining this high level of growth. The stability of the government and continuation of policies have also helped boost the confidence level of local and foreign investors in our capital markets. Overall geo-political situation still worries investors but has stabilized as compared to the past. Keeping all these factors in mind, I believe that the overall asset management industry will continue its growth in the future. The addition of new asset classes will also fuel this growth. The formalization of Real Estate Investment Trust (REIT) is a positive move in the right direction to add new asset classes and offer customers diversification in their investments. Pension funds are the largest portion of the asset management industry in the mature markets. I believe that the development of Voluntary Pension Scheme (VPS) will add to the overall growth of mutual funds in Pakistan. FAML is one of the fastest growing asset management companies in Pakistan today. The company has led the way and will Insha Allah lead in the future with the launch of innovative products and bridging the gap between Pakistan and foreign investors.

Source: *Pakistan Banks' Association*

Website Link:

http://www.pakistanbanks.org/events_highlights/interviews/our_capital_markets_are_one_of_the_best.html