

CHANGING SAVINGS INTO SAFE INVESTMENT THROUGH MUTUAL FUNDS – YOUR INVESTMENT TOOL OF CHOICE.

Mutual Funds Industry is entering a new competitive phase where companies will compete through ever growing basket of mutual funds, designed to cater all investment needs. TFD sees the industry's outlook through the eyes of Salman who points out a number of exogenous factors moulding the future of this fledgling sector. He foresees more companies entering the market in near future. He has his reservations about the interest rate hike fearing that it could mar the industrialisation process instead of curbing inflation. Salman unleashes a valid reason why stock markets are showing low volumes; he says that although we are optimistic about the market yet aggregate economic barometers are negative. Foreign reserves are declining; inflation is mounting and trade deficit (July - Dec. 2007 is \$ 8.23 bn) is forecasting bleak economic outlook. That is why investors are conservative about investments, resulting in low market turnover. Political uncertainty has turned the capital towards fixed income instruments and money market funds. On the positive side, GDP is still expected to hit 6.5 per cent and foreign remittances to increase. So, we are bullish in a long term. Salman justifies the growth of open-end funds saying, "Initially there were more close-end funds than open-end. But liquidity is the major problem close-end funds impose to common masses. Both funds have their own benefits but a large segment of population prefers quick liquidity which became the underlying factor behind the growth of open-end fund."

Disclosing the reason for having low CFS exposure he said, "There are many reasons for having low CFS exposure. Some of them are: the rate fluctuation; risk exposure and rating criteria. Just to give you an analogy of the reward ratio of two investment avenues, if you give me Rs. 100 and I want to put 30 of that in CFS to optimize my return I can gain 11 per cent from it. On the other hand, if a Double A rated bank offers me the same rate of return and cash deposit on short term, the investment in CFS becomes useless. That is why we prefer less CFS exposure." Salman has devised a peculiar leadership philosophy which says that all employees should work as if they are the owners of the company. This sense of ownership energizes the workforce and propels them to add

value to the company so the company in turn may add value to them. He believes in maximum participation of all at all possible levels.

TFD: What has caused the unprecedented growth in mutual fund industry during last five years?

CEO: lack of investment avenues was the driving force behind mutual fund growth. Before mutual funds, people had no choice but to invest in government securities and bonds. Banks were offering low interest rate on savings. Moreover, the return was taxable. These limitations and ease of government regulations for private sector paved the way for mutual fund industry boom. Professional fund management companies and growing market uncertainty helped mutual funds become the tool of choice for new investors.

TFD: How do you see the imbalance between tumbling macroeconomic indicators and progressive stock market?

CEO: The dilemma is that common man does not invest in equity market in Pakistan. With a population of 162 million, only few hundred thousand investors trade in equity markets. Nevertheless, with more avenues opening for potential investors, the market growth will produce trickle down effect to common masses.

TFD: Will tight monetary policy curb the inflation?

CEO: In my perspective, we need to unearth deeper causes of inflation rather than increasing interest rate. Tight monetary policy will not drain off excessive liquidity in short period; rather its side effects will damage industry and exports both. We may fail to achieve export targets of FY 2008 on the back of this move. Hundreds of industries have shut down recently. We are increasing rates while the whole world is decreasing it. The root cause of inflation is mismanagement which caused wheat and sugar crisis. Smuggling and hoarding should have been stopped rather than increasing rates. Inflation at a time when we had a bumper crop shows that the key factors behind inflation are not excessive liquidity but government negligence.

TFD: "American recession will plunge Asia into economic chaos". How do you respond to this statement?

CEO: American population is 2 per cent of the world population yet it consumes 25 per cent of the world's resources. This staggering contrast suggests that if US consumers become reluctant to spend, exporters to U.S will face a big setback. Not long ago, European countries were major exporters to US now Asia and China are in the driving seat. Of course, US slowdown will not only hurt Asia's exports but also the investments coming to Asian equity markets because the preference is shifting from equity to savings.

TFD: The founder of Monetarism (an economic doctrine which says that money should be used to make money in the form of interest), Milton Friedman, said before dying, the complete prosperity of any society can be achieved only with zero per cent interest. How do you respond to this statement?

CEO: I am a big fan of Friedman. Yet I would say if we have decided to follow the doctrine of capitalism. Let us see if it is working or not before opting for alternative. I would agree to the statement to some extent but in Pakistan there are other underlying factors which make this theory difficult to implement. For example, forecasting is the most arduous task for any government official in Pakistan whether he is the president or the State Bank's governor.

TFD: What distinguishes Faysal Asset Management from other 29 mutual fund companies in Pakistan?

CEO: Faysal Asset Management Limited brings together the collective financial expertise and investment experience of Faysal Bank Limited, one of Pakistan's premier commercial banks, AKD Securities, one of Pakistan's leading financial services firms, and Islamic Investment Company of the Gulf (IICG), with its extensive global fund management experience. This unique partnership has provided FAML with what we consider to be our most valuable asset, the 'Collective Wisdom' of a team committed to provide the highest quality of money management services to its customers. 12.75 percent Annual Dividend by Faysal Income & Growth Fund was the highest ever dividend paid by a Hybrid Fixed Income Fund in Pakistan. Moreover, we have always emphasized on innovation in products. We are looking forward to introduce a new asset class in Pakistan.