

## FSGF — prudent fund management

Investors had already taken a drastic hit in the KSE in FY09, when in November FY09, they faced another adversity. The mutual fund industry consisted of numerous funds claiming to be “money market” or “income” funds. On November 4, the rain came down hard on these yield-hungry players when the government downsized the value of Term Finance Certificates (TFCs). Nearly all the money market funds had large portions of TFC exposure as well as exposure in CFS (Continuous Funding System), in order to boost short term yields. Investors which had been convinced their income was in “safe” placements had another thing coming. Not only did investors suffer a blow to their profits and principal amounts, but also were not allowed redemption for a significant time.

FY08’s highest yielding money market fund took the largest hit as its portfolio was downsized by 60.3%! Along with other players, these funds came down like a house of cards. Why did it happen? The business models as well as their fund managers are to blame for this. Hungry for high yields without adequate risk assessment was the main reasons for their downfall. Faysal Asset Management’s Faysal Savings Growth Fund (FSGF) stood tall amongst its peers and not only did it survive the disaster, but also showered its investors with high yields. Post-TFC evaluation illustrates that FSGF manages to deliver YTD yields of above 11%.

So, why does FSGF stand out like a sore thumb amongst its peers? The answer lies in their business model as well as prudent fund managing. Zarrar Said talks to the CEO Salman Haider Sheikh to get the details.

**In the wake of the TFC disaster, how come FAML was the only firm to manage this risk well and disassociate its FSGF portfolio from TFCs/CFS exposure? More importantly, why didn’t the other fund managers in the market notice the risk involved and mitigate it on a mark-to-market basis constantly?**

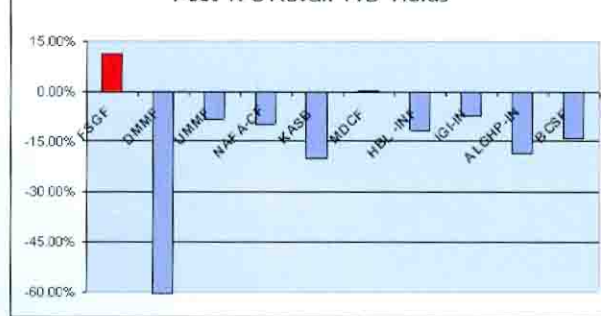
Salman Haider Sheikh: “Actually, FAML is a very pru-

dent company and it hired well qualified professionals in all fields and also established proactive fund management, research and risk management departments. This is the main edge of FAML which enables it to manage the portfolio in a risk-averse approach by maximising the portfolio yields and minimising investment portfolio risk.

Pre-TFC Reval. YTD Yields



Post TFC Reval. YTD Yields



Faysal Savings Growth Fund is classified as a money market fund. As per international standards, money market funds should not have average portfolio duration of more than 90 days. FSGF follows international best practice guidelines to manage its portfolio and this enabled the fund to manage its liquidity prudently. The emphasis on risk to reward ratio of return and thus, the investment committee had decided *not* to invest in CFS and/or the corporate bonds including TFCs, in a rising interest rate scenario leading to a possibility of impairment in the bond prices due to lack of liquidity or cash flow crunch. We feel that risk can never be eliminated but it must be mitigated by the professional investment managers.”

**With the decline in global markets and the rising inflation rates in the country coupled with uncanny rise in interest rates, where do you see the asset management market and especially FAML? Would many incompetent funds falter and cause companies to close shop?**

SHS: “Like any other industry, asset management industry will go through consolidation as the market is friendly to prudent, efficient and competent companies only. Mushroom growth is never a long-lasting proposition. The rising interest rate scenario led to the decisions of managing liquidity efficiently in short-term tenor financial instruments on the fixed income and money market side, minimising the duration risk and possible interest rate risk. We witnessed a 5% rise in the core interest rate in the country during the calendar year 2008. This significant rise in the interest rate was to curtail the inflation as it had negative impact on GDP growth. The financial instruments with long-term tenors were impacted a great deal due to their nature. This impacted both fixed and floating rate instruments. The rising interest rates in the country also coupled with the devaluation of the Pak Rupee against US Dollar led to a liquidity crunch in the financial markets. Such a liquidity crunch impacts all the three segments of the economy namely industrial, service and agriculture. Hence, the investments in such times must be managed with a

focus on all possible outcomes and Faysal Asset Management Ltd has proven with its track record that maximising return is not the only objective. The professional asset management demands maximisation of yield with a strong focus on minimising risk to provide investors with long-term superior returns.”

**The KSE seems to hover on low levels and nothing seems to be happening for investors imprisoned by equity exposure. What is the solution to their dilemmas and how do asset management companies like yours fit in? Will we ever recover from this drop in quick time?**

SHS: “KSE has over 650 companies listed. These companies are representative of the underlying economy and are subject to both upward and downward economic cycles. We are witnessing the impact of a downward economic cycle due to the global financial crisis and a tightening in the monetary policy to curtail inflationary pressures in our economy. The KSE-100 index has witnessed lows of approximately 4800 level which is approximately 70% decline. The rising interest rate scenario causing lack of availability of credit and liquidity impacted the buying power of all market participants, leading to lower volumes. The poor management of leveraging and lack of a live margin financing system also led to a crash-like scenario in our equity markets. All equity based portfolios have witnessed the impact of rising interest rate scenario. Another major impact was witnessed due to the setting of the floor at the exchange by its BOD. This fact led to lack of fair price discovery and a loss in confidence by foreign investors. We have also witnessed outflows in the foreign portfolio investments. The reversal in the monetary policy stance can have long-term positive impact as a catalyst for the GDP growth and the stock indices.”

FAML did not run after high yields by investing in risky instruments. Currently, their yields are touching the 16% mark with 98% in cash equivalent instruments. With time, and with regulations in place, investors will be shielded from misleading information and be able to sustain high yields on their investments. □