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Not very long ago there were only two mutual fund managers in the country namely, NIT and ICP. They were managing only equity funds that invest primarily in the stock market. As a result, investors started associating mutual funds with stock market and its associated risks. With the development of the regulatory framework, the market opened up to the new players. With this different varieties of mutual funds were launched having different risk and return objectives. Now there are several categories of mutual funds in the market with varying risk-return characteristics starting from the very safe money market funds to the very risky pure equity funds. However, one principle has not changed: for a long-term investment horizon low risk investments generally yield a lower return than high risk investments. By long-term investment horizon we mean five years or more.

NBP Fullerton Asset Management has a very diversified product slate that includes very low risk, medium risk and high risk products to cater the financial needs of varying types of investors. As can be seen from Table 1, NAFA Government Securities Liquid Fund (NGSLF) is a “money market” scheme that invests only in “AA” & above rated banks and “AAA” rated Treasury Bills. NGSLF has been awarded stability rating of AAA (f) by PACRA. This denotes that this Fund is very safe and has exceptionally strong capacity to maintain relative stability in returns. NAFA Financial Sector Income Fund is an Income scheme that invests minimum of 70% of its assets in the financial sector. This Fund invests primarily in banks, Treasury Bills and AA and above category rated TFCs. NAFA Asset Allocation Fund can invest 0-100% in any asset class including fixed income, money market and equities. With the proactive asset allocation decisions, we have been able to keep the risk of the Fund to around one-third of the stock market. NAFA Multi Asset Fund can invest up to 70% in any one asset class whereas NAFA Stock Fund has to be minimum 70% invested in equities based on quarterly average investment calculated on a daily basis.

Table 1

Basic Characteristics of NAFA's Key Mutual Funds						
Fund Category	Volatility/Risk	Investment Time Horizon	Investment Avenues			
			Banks	Government T-Bills	TFCs/Sukuks	Equities
NAFA Government Securities Liquid Fund	Very Low	Short or Long	YES	YES	NO	NO
NAFA Financial Sector Income Fund	Moderate	Medium	YES	YES	YES (AA & above rated only)	NO
NAFA Asset Allocation Fund	Moderate	Medium-Long	YES	YES	YES (AA & above rated only)	YES
NAFA Multi Asset Fund	Moderate	Medium-Long	YES	YES	YES	YES
NAFA Stock Fund	High	Long	YES	YES	NO	YES

The risk-return characteristics of these funds are very different due to different investment guidelines. This can be seen from Table 2. Fiscal Year to-date (July-April), NAFA Government Securities Liquid Fund has provided an annualized return of 11% with negligible volatility. NAFA Financial Sector Income Fund has generated an annualized return of 12.5% since its inception on October 28, 2011 with minimum volatility. NAFA Asset Allocation Fund and NAFA Multi Asset Fund have provided a cumulative return of about 17.5% in the 10-month period ending April 2012, whereas NAFA Stock Fund has provided a return of 25% during the same period. It is pertinent to mention that volatility in return of NAFA Multi Asset Fund is around half that of the NAFA Stock Fund while that of NAFA Asset Allocation Fund is even lower than NAFA Multi Asset Fund. Thus, investors of NAFA Asset Allocation Fund benefited from the upside of the stock market with lower volatility in returns. We advise investors to choose the fund keeping in mind their risk and return objectives.

Table 2

Performance of NAFA's Key Funds		
Fund Name	Return (July 2011 to Apr 2012)	Risk (Standard Deviation)
NAFA Government Securities Liquid Fund *	11.0%	0.12%
** NAFA Financial Sector Income Fund *	12.5%	0.56%
NAFA Asset Allocation Fund ***	17.5%	6.49%
NAFA Multi Asset Fund ***	17.4%	8.93%
NAFA Stock Fund ***	25.0%	16.14%

* Annualized Return
** from October 28, 2011
*** Cumulative Return

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