



Historical Performance of Asset Classes-a 14 Year Snapshot

We have re-examined the historical performance of key domestic asset classes for a 14 year period from January 2001 to December 2014. We have included six categories for which long-term data is available, comprising of five major asset classes i.e. Treasury Bills, Bank Deposits, National Savings Schemes (NSS), Pakistan Investment Bonds (PIBs) and Equities, and 1 synthetic asset class i.e. Capital Protected Strategy (CPS) in our analysis. During this 14-year period, headline inflation (CPI) has averaged 8.6% per annum and Pak Rupee has depreciated against USD by 4.06% per year, on average.

T-Bills are zero coupon short term sovereign debt instrument issued in 3, 6 and 12 month tenors. National Savings Schemes (NSS), representing unfunded government debt, are non-tradable instruments of various maturities. For our study, we have used Special Savings Certificates as a proxy for NSS. For bank deposits, we have used monthly weighted average deposit rates published by the SBP. We have used 10- year PIB for return on long-term Sovereign Bonds. Under the Capital Protected Strategy (CPS) the initial capital is protected upon maturity while investors also get some upside of the equities. Currently, the total assets being managed under the CPS in Pakistan are around Rs. 35 billion.

The historical analysis, as given in the table below, shows that equities offered the best nominal and real return among all asset classes in our study. A PKR 100 investment in equities in 2001 would be worth PKR 2,131 by 2014.

Performance of asset classes from January 2001 to December 2014

Asset class	Bank Deposit	T-bill	Special Savings Certificates (SSC)	Pakistan Investment Bonds (PIB)	Capital Protected Strategy (CPS)	Equity
Nominal annualized return	5.8%	9.2%	10.6%	13.0%	14.5%	24.4%
Annualized Inflation	8.6%	8.6%	8.6%	8.6%	8.6%	8.6%
Annualized Real return (adjusted for inflation)	-2.6%	0.5%	1.8%	4.1%	5.4%	14.5%
Annualized Standard Deviation (Risk)	0.5%	1.3%	6.8%	13.0%	7.8%	26.8%
Sharpe Ratio*	N/A**	N/A	0.20	0.29	0.69	0.57
Future Value of Rs. 100 at the end of 13 years - Nominal value	221	343	408	556	668	2,131
Future Value of Rs. 100 at the end of 13 years - Real value	69	108	128	175	210	669

*Sharpe Ratio = Excess return per unit of risk = (Expected return – Risk free rate)/(Standard deviation)

**Due to negative excess return, standard sharpe ratio is meaningless

Source: SBP Statistical Bulletin, KSE, NSS website, NAFA Research

The historical analysis of these asset classes supports the basic notion that there is a positive relation between risk and return. As expected, equities have the highest volatility or risk and bank deposits and t-bills the lowest. Analysis shows that for investors with the long-term investment horizon and high appetite for risk, equities offer the highest return. Capital Protected Strategy offered the best risk-adjusted return as measured by the Sharpe Ratio during the 14-year period. More specifically, CPS delivered an attractive nominal return of about 14.5% per annum at a relatively low risk level (standard deviation of 7.8%).

Value of Rs. 100 at the end of 14 years – Nominal

