



Pakistan's Mutual Fund Industry: SWOT Analysis

Strengths

- **Diversified product slate**, offering a wide array/ combination of asset classes i.e. equity, fixed income, money markets, balanced, commodities, conventional & Islamic etc.
- **Risk reduction and high return potential.** Mutual funds have made stock investing more feasible for investors by reducing risk via market timing/ portfolio diversification, and offering higher return through superior stock selection.
- **Tax incentives to investors.** Unit holders (mutual funds and VPS) are entitled to tax credit.
- Several large banks owned asset management companies (AMCs), creating a sizeable clout.

Opportunities

- Large unexploited retail segment
- Rs. 4.5 trillion in current and savings account (CASA) deposits of the banking sector on which investors earn an average return of 4.5% per annum. Money market mutual funds presently offer a return of around 8.0% per annum.
- Large informal/rural sector savings
- AMCs are expected to be allowed to launch REIT Funds / Retirement Funds / Private Equity Funds, etc.
- **Low Investor base.** Mutual fund assets are just 4.7% of bank deposits in Pakistan vs. 14% in India, and over 100% in the US. In Pakistan, the number of mutual fund investors is around 134,000 against about 30 million bank account holders.
- Instant access by the investors to their savings via introduction of ATMs/debit cards, and other such facilities.

Weaknesses

- Not been able to educate all investors of the benefits of mutual funds.
- Limited retail penetration, and concentration of Corporate / Institutional clients.
- Low management fee due to competition and distribution / accounting expenses not being allowed to be charged to the funds, does not leave enough room to make necessary expenditures on sales force/ distribution network to educate investors on mutual fund products.
- Under developed capital markets/ dearth of investment opportunities

Threats

- National Savings Schemes (NSS) offering higher interest rates than market-based investment avenues despite sovereign guarantees.
- Institutional / corporate withdrawals, in case tax arbitrage is eliminated or reduced.
- Investors concentration
- Macroeconomic instability

Conclusion

The Mutual Fund industry will grow at a very high rate in the next couple of decades as investors' awareness about the mutual funds improves.