

## Mutual Fund - a benefit to investors and economy

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### Why should people invest in Mutual Funds?

Mutual funds are managed by professional investment managers who after thorough and careful research select suitable investment avenues to achieve their investment objectives. Mutual Funds offer advantage of diversification to investors as they invest in a variety of investment avenues. Further mutual funds provide liquidity, allowing investors an easy exit. Mutual Funds also offer attractive tax benefits to individual investors. By investing in Mutual Funds an individual investor can reduce its tax liability by up to 20 per cent. Further, long term gains realised by the investors are tax free, making Mutual Fund investments attractive investment avenues for the investors.

### What are the options available to investors?

Variety of Mutual Funds is available for investment. However investor should select a fund based on his or her risk/return profile and investment horizon. Investors with low risk profile and short term horizon should generally invest in money market/ income funds which invest in safe investment avenues. Those investors with medium risk profile may prefer balanced and asset allocation funds, which invest about half of their money in the stock market. For investors having a long term horizon, it may be desirable to invest in stock funds where expected return along with the risk is high. This is because equities show volatility in the short term but generally outperform inflation, bank deposits and fixed income securities in the long run.

### What is the benefit of Mutual Funds to corporate?

Mutual funds can help corporates expand their business. Corporates normally raise money for expansion either through the equity market or through debt in the form of corporate bonds, sukuk or commercial papers. Mutual funds invest in both equity and debt markets which can help businesses achieve their expansion plans. Further, corporates also invest their cash in mutual funds.

### How are Mutual Funds beneficial to a country?

Saving and investment rate in Pakistan at around 15 per cent is among the lowest in the world. By comparison, saving and investment rate in India is around 32 per cent. Growth of the Mutual Fund industry leads to higher savings and investments, and resultantly faster growth of the economy.

### What are the future prospects of the industry?

industry is around Rs. 600 billion (US\$ 5.8 billion), which is around 2 per cent of Pakistan's GDP (size of economy). In India, the total size of the Mutual Fund industry is US\$ 249 billion, which is 11 percent of India's GDP. If the Mutual Fund industry in Pakistan had grown at the same pace as in India, the total size of the Mutual Fund industry would have been US\$ 31 billion rather than US\$ 5.8 billion. This would have helped our savings and investments grow, and resultantly our

economic growth rate would have been higher.

To help increase the size of the Mutual Fund industry, the government needs to facilitate the industry and remove impediments in its growth. SECP is already playing a key role in bringing the industry regulations in line with international standards, and has recently introduced measures to enable retail sales growth. However, regulatory controls over management fee and sales load are still hindering the growth of the retail mutual fund industry.

### How has NAFA performed in the last decade?

NAFA is rated AM2++ by PACRA (High Investment Management Standards), which is the highest rating offered to any asset management company in the country. The rating is primarily based on quality of management, performance of funds, and risk mitigation systems of an asset management company. NAFA has grown substantially and in a short period of 11 years it is presently managing 21 open end mutual funds, six pension sub funds and over 100 investment advisory portfolios. At present, total asset under management of NAFA are around Rs. 97 billion.

Our NAFA Stock Fund is our flagship fund, which is the best performing stock fund of CY 2016. It provided a 51.5 percent return to its investors in 2016 versus a 46 percent rise in the stock market (KSE 100 Index), and an average return of 39 percent on other stock funds in the country. NAFA Islamic Stock fund, NAFA Islamic Asset Allocation Fund, and Islamic Pension Fund (equity) are also among the best performing funds in the country. Our Islamic mutual funds are our fastest growing segment.

## For Information & Investment

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