

Best Investment Option to Suit Your Needs

Investment objectives are unique to every investor based on his or her needs such as meeting regular expenses, financing children education & marriage, buying a house, securing retirement, etc. Investing is a science as well as an art that requires expertise and time. Worldwide, mutual funds are popular mode of investment among individual as well as institutional investors. There are several categories of mutual funds that cater to varying investment needs, with added advantages of professional management, diversification, liquidity, ease of withdrawal, and tax benefits. Both conventional and Shariah compliant Mutual funds are available to investors in Pakistan.

An Investor's investment objective is determined by his or her return expectations and risk tolerance. There are a variety of mutual funds with varying risk-return profile. Table-1 summarizes different categories of mutual funds along with their key authorized investment avenues and risk profile. Money market funds being the safest category of mutual funds, are suitable for investors with a short investment horizon. Income Funds aim to provide investors regular income along with relative safety of capital, and are suitable for investors with one year or longer investment horizon. Capital preservation funds aims to provide investors some upside of the stock market while their initial investment amount remains preserved at maturity. Capital Preservation Funds are suitable for investors with two year or longer investment horizon. Balanced funds and asset allocation funds are medium risk category of funds that aim to generate regular income by investing in fixed income avenues, and capital growth by investing in the stock market. Stock funds carry high risk and are suitable for investors who are willing to take that extra risk to earn higher returns, and generally have a medium to long-term investment horizon.

Table 1. Categories of Mutual Funds

Fund Category	Risk Profile	Bank Deposits	T-Bills	PIBs*	TFCs**	Equity
Money Market Funds	Very Low	✓	✓			
Income Funds	Low	✓	✓	✓	✓	
Capital Preservation Funds	Low	✓				✓
Balanced Funds	Moderate	✓	✓	✓	✓	✓
Asset Allocation Funds	Moderate	✓	✓	✓	✓	✓
Equity Funds	High	✓	✓			✓

* Pakistan Investment Bonds **Term Finance Certificates

Table 2. Performance of Mutual Funds managed by NAFA as of December 2017

NAFA's Funds	Inception*	Annualized Return	Annualized Std. Deviation (Risk)
Money Market Funds	May-09	8.7%	0.7%
Income Funds	Apr-06	7.5%	3.0%
Capital Preservation Funds	Mar-14	12.3%	7.9%
Balanced Funds	Jan-07	14.8%	11.7%
Asset Allocation Funds	Oct-07	12.9%	14.8%
Equity Funds	Jan-07	15.8%	24.4%

* Average performance of each category since their respective inception

Performance of various categories of mutual funds managed by NAFA (see Table 2) holds the well-known convention that the higher the risk, the higher the return. Money market funds being the safest category have delivered annualized return of 8.7% with a minimal risk level. Stock funds have delivered the highest return of 15.8% per annum but with high volatility. Capital preservation funds generated a return of 12.3% per annum with a moderate risk level.

Investors can choose fund(s) that suit their investment needs according to their return expectation and risk appetite. It merits mention that better managed mutual funds have out-performed their respective benchmarks. For instance, our flagship NAFA Stock Fund (NSF) has delivered a total return of 461% versus 314% by the KSE 100 Index since its inception on January 19, 2007 till January 31, 2018. This out-performance of NSF is net of management fee, and all other expenses. So, if someone invested Rs.1 million in NSF 11 years ago, the value of his or her investment has increased to Rs.5.6 million by now.