

Investing in NAFA Funds

The following is an interview with Dr. Amjad Waheed, CFA. He is the Chief Executive Officer of NBP Fullerton Asset Management Ltd (NAFA).

Please tell us about yourself.

I have been associated with NAFA since its inception in 2006. Prior to joining NAFA, I served as the Head of Equity Mutual Funds and Portfolios at Riyadh Bank, Saudi Arabia for five years, as Head of Asset Management at NIT and Chief Operating Officer of FC ABN AMRO Equities. Before moving back to Pakistan I worked as Assistant Professor of Finance at Tennessee State University, USA and published several articles in top journals of the world.

What is the success story of NAFA since its inception?

NAFA is a joint venture between National Bank of Pakistan and Fullerton Fund Management Company of Singapore. It is now in its tenth year of operation. We are among the top four highest rated asset management companies in the country that have been awarded an AM2+ rating. The rating agency, PACRA, states that "the rating reflects the company's strong capacity to manage risks inherent in the asset management business. The Asset Manager meets high investment management industry standards and benchmarks". We are presently managing over Rs 46 billion of investors' money.

What are the key products and services offered by NAFA?

NAFA has launched mutual funds and pension funds in the low, medium and high risk / return categories. We have a number of Shariah compliant Mutual and Pension Funds as well, and this is our fastest growing area. In addition, we have over 140 investment advisory mandates from corporations and high net worth individuals to manage their employees' or personal funds. Our flagship fund is NAFA Stock Fund that has provided a 320 % return to its investors over the last six years. This means that if someone invested Rs 10 lack in the fund six years ago, that investment is worth Rs 42 lacks today. The Fund has comprehensively beaten its benchmark (KSE 100 Index) and the Peer Group during this period.

What are the tax benefits of investing in Mutual and Pension Funds?

Mutual Funds and Pension Funds offer attractive tax benefits to individual investors. By investing in Mutual Funds, an individual investor can reduce



Dr. Amjad Waheed, CFA
Chief Executive Officer
NBP Fullerton Asset Management Limited (NAFA)

his / her tax liability by 20% whereas by investing in Pension Funds, the investor can further reduce the tax liability by 20% to 50% depending upon the age of the investor.

How has the mutual fund industry grown in Pakistan?

In Pakistan, the total size of the mutual fund industry is Rs 442 billion (US\$ 4.3 billion), which is 1.6 % of Pakistan's GDP (economy). In India the total size of the mutual fund industry is US\$ 184 billion, which is 9.4 % 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\$ 25 billion rather than US\$ 4.3 billion. Resultantly, the savings and investment rates of Pakistan would have been much higher. Presently, this rate is around 15% of GDP, which is among the lowest in the world. Higher savings and investments would have also helped reduce government's reliance / borrowing on foreign donors and countries. In 2005, mutual fund assets in Pakistan were 1.9% of our GDP, which have now declined to 1.6% of GDP. In India, during the same time period, mutual fund assets have grown from 5.5% of GDP to 9.4% of GDP. To help increase the size of the Mutual Fund industry, the government needs to facilitate the industry, and its regulations will have to be brought in line with international standards.

What are the greatest challenges facing the mutual fund industry?

The biggest challenge and opportunity at the same time for the industry is to grow the retail network. Presently there are less than 200,000 investors in the mutual fund industry versus about 10 million bank account holders. It requires extensive costs to establish a retail network, and it takes several years to recover such costs. Therefore, there has been minimal growth in the retail

branches set up by the industry in the last decade. Banks operate at a spread of about 6%-7%, which gives them enough profitability and room to grow their branch network. Mutual funds, on the other hand, generally charge an average management fee of 1.5% per annum. There are restrictions / limitations on charging of marketing expenses and sales load by them. This does not leave much room and potential of profitability for the industry to grow the retail network. Thus a common man in Pakistan does not have access to the retail network of mutual funds. Consequently, he is unable to benefit by investing in mutual funds.

Where do you see NAFA in the next 5-10 years?

NAFA has the largest retail network in the country with about 275 sales staff, marketing our Mutual and Pension Funds. We plan to gradually grow this sales team. This sales team will help investors in their financial planning to achieve their financial targets. Our fastest growing area is Islamic mutual funds. We are in the process of opening NAFA Islamic Savings Centers in the country to cater to this market. Our NAFA Islamic Asset Allocation Fund has provided a 231% return to its investors over the last six years, with a medium risk level, as it has been roughly 55% invested in Shariah-compliant shares.

NAFA is providing investment management / advisory services to over a hundred such corporations, and is further expanding this line of business.

What is your message to the investors?

People in Pakistan generally keep their savings in banks and national savings schemes. However, the return on these savings is very low. It is therefore important for individuals to explore the possibility of investing in Mutual Funds and what type of Mutual Fund will suit them the most based on their own risk profile and investment time period. Over the last 15 years, the average return on the stock market has been around 23% per year, whereas the average return on bank deposits has been about 6% per year. Rupees 100 invested 15 years ago in a bank at 6% per annum would have grown to Rs 240 today, whereas Rs 100 invested in the stock market would have grown to about Rs 2,100 by now. Therefore, for investors who have long investment horizons it may be desirable that some portion of their assets be invested in the stock market. The best way to invest in equities is via a stock mutual fund with a good track record, as an average investor may not have the time or the expertise to invest directly in the stock market.



NBP Fullerton
Asset Management Ltd.
A Subsidiary of
National Bank of Pakistan

Your investments & "NAFA" grow together



FULLERTON FUND
MANAGEMENT

Joint - Venture Partners

Rated **AM2+** by PACRA

My Investment in **NAFA Islamic Asset Allocation Fund** grew from **Rs. 1 Crore** to **Rs. 3.3 Crores** in only **6 Years!**



You can invest with Rs.10,000 only

Last 6 years (Dec 2009 till Nov 2015)

Average Annualized Profit

Total Profit

**NAFA Islamic Asset
Allocation Fund**

22.1%

231.4%

Benchmark¹

16.3%

148.1%

For Information & Investment

Call: 0800-20002

SMS: NAFA INVEST to 8080

www.nafafunds.com

f /nafafunds

- NIAAF is a Shariah Compliant Asset Allocation Scheme rated ★★★★★ by PACRA.

¹**Benchmark:** (1 / 3 KMI-30 Index , Islamic Bank Deposits, 6-months KIBOR). The fund category was changed to Islamic Asset Allocation from Islamic Balanced with effect from April 22, 2014. Consequently, allowed equity range is now 0% to 90% which previously was 30% to 70%. Previous benchmark was 50% KMI-30 Index & 50% 3-months Islamic bank deposits.

Disclaimer: All investments in mutual funds are subject to market risks. Past performance is not necessarily indicative of future results. Please read the Offering Document to understand investment policies and the risks involved. Taxes apply.