



Investing for better tomorrow

Atlas Asset Management — a credible name



An interview with Mr. Habib-ur-Rahman, Chief Executive Officer Atlas Asset Management

Mr. Habib-ur-Rahman, Chief Executive Officer Atlas Asset Management, is an FCA from the Institute of Chartered Accountants of England and Wales and has attended the management level program (PMD) from Harvard Business School, USA. He has been a founding member and past Chairman/Director of the Mutual Funds Association of Pakistan. He played an instrumental role in setting up the first open-ended mutual fund in the private sector in Pakistan. He has been SECP's nominee on the Board of Karachi Stock Exchange in 2000, 2001 & 2003, and has also been a member of the Commission's Advisory Group on Capital Markets and the Commission's Enquiry Committee on Management of Exposure Rules by KSE/LSE. Dawn recently conducted an interview with him. Here are some excerpts:

Tell us something about Atlas Asset Management Limited (AAML) and

how the company has been working since its inception in August 2002?

Atlas Group is a diversified group, founded by Mr. Yusuf H. Shirazi in 1962, dealing in engineering, power generation, financial services and trading. Its shareholders' equity now stands at 76 billion rupees; assets have increased to 122 billion rupees, with personnel strength currently to 8575 employees.

Atlas Asset Management Limited (AAML), an Atlas Group Company, is a recognized name in the mutual fund industry of Pakistan. AAML is licensed by the SECP to manage both mutual funds and pension funds.

The Company manages both conventional and Shariah-compliant funds with the latter being certified by Mufti Muhammad Yahya Asim as the Shariah Advisor. AAML has Asset Management Quality rating of AM2 (C) assigned by PACRA and currently has asset under management of over Rs 16 billion. AAML is GIPS-compliant and follows global standards for reporting investment performance.

AAML aims to mobilize savings of people and invest them in different investment avenues i.e. equity, fixed income, commodities etc. suitable for individual and corporate needs. Since equity market has a higher return with average annual return of over 18% during last ten years, it is recommended for investment of long term savings. For short term investment, money market funds are recommended.

AAML was initially one of the four

leading asset management companies which were licensed by the SECP to launch and manage Voluntary Pension Funds. Pakistan lacks a culture of long term savings due to which Savings to GDP ratio is only 13% in the past few years which is very low as compared to India and China, where it is 30% and 50% respectively.

It is important that developing countries should focus on increasing savings. This can be done by increasing focus on promoting retirement funds. By promoting retirement savings, Pakistan can improve savings rate.

The savings so mobilized can create investment opportunities to generate employment in the country. An investment in pension funds would help salaried professionals and self-employed people like shopkeepers, farmers and workers who have no access to a formal pension, to draw pension income regularly.

Why should a common investor invest in mutual funds?

Mutual Funds offer investment products that meet investor's long, medium and short term needs by providing competitive returns depending upon risk preferences.

For long term investment, equity funds are recommended, where the historical annual average return is over 18% based on equity market performance. For medium and short term investment income and money market funds are recommended, whereby the rate of return is current-

ly in range of 8% to 10%.

The rate of return offered by banks is low, which discourages savings. A person investing in mutual funds over his working life has an advantage of not only having a difference in rate of return but also the power of compounding, compared to keeping the money in bank deposits.

In mutual funds, even the low risk category money market funds are currently offering about 8% per annum return, with the added advantage of tax credit.

Investors, who do not have the time or expertise to invest in the stock market are better off investing via equity mutual funds.

A misconception occurs in the mind of investors that a direct investment in the capital market reduces cost; this is not true. Firstly, the ordinary investors do not have access to information that is readily available to fund managers and secondly the investor's selection of securities and timing may be not be correct. Additionally, there is a transaction cost accruing to the investor in the form of brokerage cost and other charges. Lastly, mutual funds invest in a diversified number of securities.

By directly investing in securities, such diversification is not available to investors. Currently, there are only about 200,000 investors invested in mutual funds in Pakistan versus 37 million bank account holders.

The industry needs to increase its

reach to cater to a larger population.

What funds/schemes does AAML offer and how is it retaining its market leadership?

AAML offers both conventional and Shariah-compliant funds in Equity, Income & Pension Fund categories. In addition, it also offers conventional funds in Money Market and Gold Fund (Commodities) categories. AAML follows the Global Investment Performance Standards (GIPS), for reporting investment performance, which are updated each quarter and uploaded on our website. In terms of AUM size, AAML ranked ninth on September 30, 2014. Only NIT and AMCs that are subsidiaries of larger banks are ahead of AAML in terms of AUM size, based on September 2014 figures. We are ahead of many other bank backed AMC's in terms of asset under management. With our strong emphasis on systems and controls, quality human resource and backing of Atlas Group, we enjoy a distinct advantage. Our goal is to provide investors higher risk-adjusted return and best services while ensuring total transparency and complete customer satisfaction.

Regulator. This has not materialized, as this has been affected by eighteenth amendment to the Constitution and the subject relates to Labor laws.

In my view Pension reforms need to be carried forward, as savings for retirement helps in mobilizing resources for the economy. In my view, if there is any institution in the country that has the capacity to promote and regulate pension funds in the private and public sector that is SECP. It is for the Government to resolve the constitutional issue. Section 62 of the Income Tax Ordinance allows tax credit on investment up to one million rupees in new issues for two years. In my opinion this does not serve much of a purpose. The investment should be held for working life that would help investors to hold on to their invest-

Secondly, it is the responsibility of Regulator to promote as well as regulate. Although the Regulator is performing in regulating but more emphasis is required for promotion of Mutual Funds and Pension Funds.

Where do you see the mutual fund industry five years from now?

Mutual funds' asset are about Rs. 421 billion, i.e. just about 5.24% of bank deposits with very low investor base but has potential to grow at least three times in next five years. In addition to providing competitive return to investors, mutual funds play an important role in the development of capital market and economy.

To achieve assets under management three times at the end of five years AMC, Regulator and the

Our equity market is very developed but still there is room for improvement. We feel that the Government should encourage well managed private sector companies to be listed. The debt/bond market is of negligible size and illiquid. We need to develop the bond market. Karachi Stock Exchange (KSE) has established a new counter BATS (bond automated trading system) for it. But it has yet to work to its optimum level

What is the significance of these services? What is the response of your clients, specially the pensioners?

Contrary to the banking products which have clear profit margin, mutual fund products need special counseling with sophisticated marketing skills. Despite efforts by AMC on their own, collective efforts by MUFAP, a significant penetration of mutual funds in the market has not been yet achieved.

AAML has been a leading player in the pension industry and the response of our valued investors, especially the pensioners has been very good. Before 2008 financial crises, our AUM had reached Rs. 9 billion on April 2008, which went down to Rs. 3.3 billion on January 2009 after the financial crash. Since then, we have increased by 360 per cent and currently our AUM has crossed Rs 16 billion. Compared to that the aggregate industry size had reached its peak point of Rs. 383 billion on April 2008, which went down to lowest point of Rs.175 billion on January 2009 after the financial crash. Now the industry is at Rs.421 billion, having recovered 141 per cent from the lowest point. The recovery shows the confidence investors have reposed on mutual fund industry and AAML.

In Pakistan, in addition to VPS, Pension Reform is needed to generate savings. Without government commitment, the reform is not possible. In 2007, SECP notified Voluntary Pension Scheme (VPS) Rules and gave license to four AMC's which also included AAML. SECP has currently licensed four more Pension Fund Managers making the total number of Pension Fund Managers to eight. It is hoped that in future retirement savings will grow for the benefit of both investors and economy.

What challenges are you facing currently? How does the government help you?

Pakistan's mutual fund industry is just about 5.24% of the bank deposits. The number of mutual fund investors is very low as compared to total population of over one hundred eighty million people.

There are two reasons for low penetration of mutual funds; firstly that despite over fifty years on the scene, mutual funds have not been very popular to attract a large number of investors. This is a great challenge for the mutual fund industry. From the platform of Mutual Funds Association of Pakistan (MUFAP), the mutual fund industry needs to hold seminars on regular basis in urban centers to popularize mutual funds. The second and more important reason is the low savings rate in the country. Government's support and commitment is needed to improve the savings rate, which if not improved, will make Pakistan continue to depend on borrowing or selling government holding in companies to bridge the financial gap.

The Government should therefore encourage retirement and long term savings. These are long term savings and these savings can be invested in infrastructure projects and capital markets. The Government had initiated Pension Reform to promote and regulate the employers' managed pension schemes in private and public sector with SECP as promoter and

Government have to take a number of measures:

i. The AMCs collectively through Mutual Funds Association of Pakistan must take steps to popularize and market mutual funds to investors.

ii. The Regulator must also play the role of promoter.

iii. Retirement savings should be promoted; in particular private sector and public sector retirement schemes established by employers should be brought under SECP regulation. The Government should carry out necessary legislation in this direction to facilitate.

iv. There should be level playing field or tax neutrality in respect of taxation between investors investing directly in securities and those investing in mutual funds.

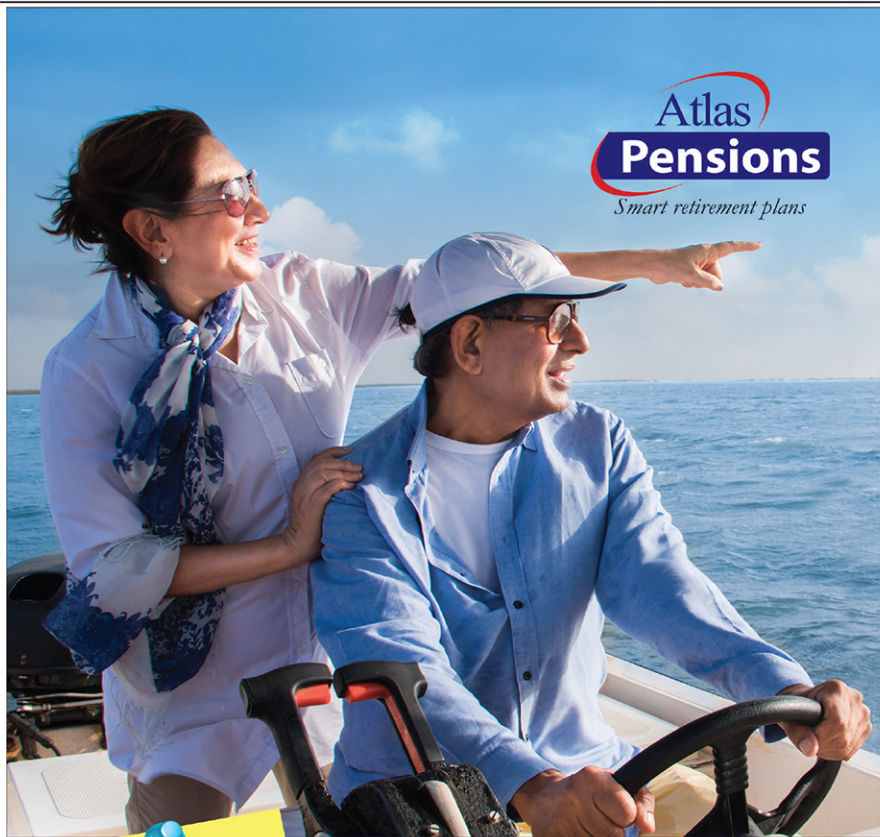
v. Tax laws should encourage long term savings. It is important for Pakistan to improve savings to GDP ratio.

vi. Mutual Funds should play increasing role in corporate governance and capital market development.

Where do you find your company five years from now?

I would like to see an increased fund size three to four times the present size, besides enhanced saving rate. In last five years after the financial crisis AAML has higher growth than industry average. We shall continue to serve our investors and are hopeful that this trend will continue. Moreover, we would also like to see an increased base of voluntary pension fund, equity fund and income funds together with increased retail penetration. We also want to include overseas Pakistanis to join pension scheme. Foreign investors are more knowledgeable and know market trends.

Our equity market is very developed but still there is room for improvement. We feel that Government should encourage well managed private sector companies to be listed. The debt/bond market is of negligible size and illiquid. We need to develop the bond market. Karachi Stock Exchange (KSE) has established a new counter BATS (bond automated trading system) for it. But it has yet to work to its optimum level.



- Retirement Checklist**
- ✓ House
 - ✓ Childrens education
 - ✓ Daughters marriage
 - ✓ Monthly pension

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Atlas Pension Fund - Allocation Scheme Returns				
Allocation Schemes	FY14	FY13	FY12	Since Inception (From 28 Jun 2007)
High Volatility	29.81%	43.68%	15.41%	187.95%
Medium Volatility	21.54%	30.44%	13.46%	148.01%
Low Volatility	14.66%	19.42%	11.83%	114.63%
Lower Volatility	7.73%	8.34%	10.23%	81.87%

Atlas Pension Islamic Fund - Allocation Scheme Returns				
Allocation Schemes	FY14	FY13	FY12	Since Inception (From 6 Nov 2007)
High Volatility	21.51%	40.77%	25.44%	252.99%
Medium Volatility	16.42%	28.34%	18.78%	184.08%
Low Volatility	11.35%	15.94%	11.99%	114.73%
Lower Volatility	7.89%	7.52%	8.04%	70.41%

All Returns as on June 30

Ground Floor, Federation House, Sharae Firdousi, Clifton, Karachi - 75600
 Karachi: (92-21) 111-MUTUAL (6-888-25) (92-21) 35379501-04, Fax: (92-21) 35379280
 Lahore: (92-21) 37364904, Islamabad: (92-21) 5856411
 Website: www.atlasfunds.com.pk | www.facebook.com/atlasfunds



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