



Q&A with Rashid Mansur CEO JS Investments

A pioneer in asset management in Pakistan, how does JS Investments differentiate itself in the highly competitive asset management industry?

Rashid Mansur: "JS Investments Limited (JSIL) is the first private sector asset management company in Pakistan, and was established in 1995. The asset management industry has come a long way since then and with 25 asset management companies operational in the country, it has witnessed tremendous growth leading to increased competition.

We continue to be one of the largest asset management companies in the country, with the most diversified product suite in the industry. JSIL has a total of 16 funds, including Mutual Funds, Pensions and Separately Managed Accounts, which are tailor made to suit the diverse needs of our investors.

JSIL offers investors the opportunity to invest in our funds for as low as Rs. 100/-, because we want the common man to invest in our funds and gain from the advantages of mutual funds. In addition, we have an alliance with the top commercial banks in the country to further focus and expand our retail distribution platform in the country."

What factors do you believe have contributed to the success of JS Investments in Pakistan?

RM: "Our success is based on three main factors. Firstly, our innovative product offerings; secondly, our distribution strategy; and thirdly, and most importantly, our human resource.

Innovative product offerings with a strong focus on retail investment have been major differentiating factors which have helped us achieve success. Having a history of being pioneers in the mutual fund industry, we are the first asset management company to offer Capital Protected Funds (CPF), initially with our distribution partner, a major multinational bank, where majority of the investors in these funds were individual deposit holders.

JSIL went on to pioneer the retail distribution of mutual funds through third-party platforms, mainly commercial banks, and created stronger relationships with most multinational banks and a few local banks. This approach has ensured that the retail investors segment is brought into the mutual funds investment net, which continues to be on the rise.

The third most important factor has been our exceptional human resources, whose dedication, hard work and will to learn from our vast experience has ensured that we remain the pioneers in this industry. Their capability to think things differently and analyse things with the depth of our knowledge base has helped us time and again to realign ourselves with the evolving environment.

Other than that, our vast experience in the financial services industry, the mission to realise financial goals of our investors, along with our affiliation with a large, reputable and diversified group like the JS Group are also factors that contributed to the success of JSIL.

However, I would like to say that the major reason for our success today is our investors, who have put their trust in our experience and knowledge of this industry."

Has the current economic volatility in Pakistan been a challenge in terms of attracting investment?

RM: "During FY03-FY08, the asset management industry experienced exponential growth and posted a total AUM of Rs. 334 billion as of June 2008. After 2008, the global recession coupled with drying up of liquidity and shift in domestic political, economic and security conditions proved harmful to the industry, and the industry witnessed a sharp decline in size at the end of FY 2009. Another factor that contributed to the slowdown in investment was the depreciation of the Rupee by nearly 25%, against hard currencies over the years. This forced investors to invest in other short-term lucrative opportunities such as foreign currencies

Having said that, the industry is picking up pace, which was exhibited by AUMs recovering to Rs. 199 billion at the end of FY 2010. This is definitely a positive sign.

However, this downturn has adversely affected investor confidence and therefore attracting investment has truly been a challenge. To counter this volatility, the asset management industry has shifted focus to low-risk funds, preferably capital protected funds mainly offered by us and money market funds like the very recently launched fund — the JS Cash Fund. I strongly feel that such low-risk products, which are the need of today's economic and investment environment, as well as add to options available to the investors, will help the industry attain sustainability and also in getting back on the growth track primarily by regaining the trust of the investors.

I would like to add that even during the worst liquidity

crunch of Pakistan's history, our company was able to demonstrate a very comfortable liquidity position and that's one of the reasons why the investors reinstated their trust in us."

What other challenges does JS Investments and the asset management industry as a whole face?

RM: "The financial sector as a whole is facing dried up liquidity conditions. The tightening of the monetary policy through introduction of additional tough fiscal measures like Capital Gains Tax at this particular stage is further going to challenge the recovery efforts across the financial services sector. Under these circumstances, the asset management industry cannot remain unaffected.

In addition, low levels of financial inclusion due to lack of customer awareness and socio-cultural trends also act as a huge challenge for this industry to gain penetration at the retail level. A large segment of the investor base is limited to large institutional investors and not individuals; a situation that needs to be improved drastically for a stronger future of the industry. I want to add that the government should play a vital role in relation to awareness in respect of the importance of savings and investments. Government patronage can enhance the dispersion of this vital message to the relevant segments of our population. Unfortunately, instead of encouraging the private sector financial industry, the government has been crowding

out the private sector through its own huge borrowings from the system.

We recognise the importance of investments by Occupational Saving Schemes (i.e. employee funds such as provident, gratuity and company-run pension funds) as these can play a major role in channeling employer/employee contributions into specialised investment management vehicles like mutual funds. However, to further promote such products there is a great need to improve the existing taxation anomalies.

In the longer term, the industry needs to grow and further mature itself to be recognised not only as a mode of investment but also as a viable mode of savings. At present, our industry's AUM represents a mere 3.5% of the total bank deposit base of approximately Rs. 4.6 trillion while its share in GDP stands at just 1.6% compared to 8% and 79% in India and USA; depicting large potential for future growth."

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What are your views on the regulatory environment governing Pakistan's asset management industry and what recommendations would you make?

RM: "The regulatory environment for the asset management industry in Pakistan has come of age pretty well in the last 5-10 years, with the introduction of a more comprehensive regulatory framework (NBFC&NE Regulations & Rules), enhanced regulatory capabilities and adoption of international best practices, both by the regulators and the industry.

This progression has allowed the sector to show a reasonable growth in terms of assets under management, the number of operators (from two asset management companies operating in 1999 to 25 in 2010 — managing 105 open-end funds and 31 closed-end funds) in addition to an effective demo/geographic spread,

based on proactive marketing which resulted in greater public awareness. I feel confident in saying that the asset management companies have flourished quite well as well regulated market participants providing an attractive yet viable saving option for a larger investor base, both for the individuals as well as the institutions in the country.

However, as always, there is still a lot of room for improvement and to support the development of the asset management sector, the regulatory basis will have to shift from a *rule-based framework* to a *guideline-based framework*,

with in-built flexibility to cater to innovation and help provide more investment products to the investors. Only the time and growth factors shall compel us to adopt self-regulation aspects of sector management to ensure a sound, sustained, and growth-oriented existence in the financial services landscape of the country."

What are your views on Pakistan's capital markets?

RM: "Pakistan's capital markets remain in a nascent stage of development. Development had picked up momentum in the strong economic growth period from FY03-FY07, with successful placement of GDRs and Pakistani Eurobonds in international markets. In terms of the equity market, however, development had slowed down due to closure of the market for a period of more than 100 days in 2008. This, along with the bearish market of 2008, has severely affected the investor confidence in the country. Moreover, the need to deepen the



equities market through further listing of companies remains to be a challenge that needs to be addressed seriously, both at the fiscal and corporate regulatory levels.

In terms of debt markets, the 2003 to 2007 boom period saw a strong growth in the corporate bond issues — i.e. Term Finance Certificates (TFCs), as investor appetite for risk was higher and there was substantial liquidity in the market coupled with economic growth. However, since the economic downturn, many TFC issues have become affected by liquidity concerns leading to their restructuring and default in some cases. Meanwhile, a change in the pricing mechanism of TFCs as prescribed by the regulator has led to price volatility and, in some cases, significant decline in values has impacted investor sentiment, particularly in income funds.

In the evolving capital markets of Pakistan, the role of regulators is critical. Positive developments such as BATs and stock index futures have been introduced, and should be recognised. However, liquidity in both equity and debt markets is insufficient, often to the extent that it hampers price discovery. The market for derivatives has also been unable to grow as per expectations. There is a need for close coordination between the private sector and the regulators to improve the pace of reforms.”

You have gained a wealth of experience in the financial sector in Pakistan as well as Turkey. What drew you to a career in banking?

RM: “I believe that people tend to do what they are good at. Back in the ‘70s when I was a university student, I had the opportunity to interact with some very fine bankers, in connection with my father’s export business in textiles. The polite, friendly but, at the same time, professional demeanour of these bankers impressed me immensely. Moreover, the neat, clean and organised ambience of the bank premises that I visited left a lasting impression on my mind, especially when I compared it with some of the public sector offices I had to visit.

Convinced that banking was a profession closest to my heart, I joined Habib Bank Limited in 1974, as a Management Trainee Officer and have since then loved every single moment of this journey. Out of my 18 years with HBL, I was lucky to serve for 10 years in Turkey. I cherish the fond memories of these years. My wife Samra and I speak Turkish in addition to French. Both our sons, Hasan and Mohsin, were born in Istanbul. Since my return to Pakistan, I have served as the CEO of a leasing modaraba, CEO of an investment bank, chairman and CEO of Board of Investment and Trade Punjab, and CEO of another leading investment bank, before arriving at my present assignment.”

You have received recognition for enhancing economic relations between Turkey and Pakistan. Would you describe Pakistan as a viable investment destination? If so, which sectors are particularly attractive for investment?

RM: "There is a huge room for bilateral cooperation between Turkey and Pakistan. Both countries can develop their cooperation especially in the sectors of education, industry, chemicals, textiles, husbandry and dairy production. For example, some of the leading Turkish contracting and construction companies have worked on construction projects in Pakistan like motorways and dams. Some of the equipment required by the Pakistani textile sector is imported from Turkey.

Pakistan imports wheat from Turkey, and Turkey imports rice and textiles from Pakistan. For its part, Pakistan can import Turkish dairy products and refrigerators, washing machines, electronic goods, automobiles and other durable items, which are said to be qualitatively better and far cheaper than Western, Japanese or South Korean products.

If you ask me, I see the real way forward through shifting our focus from the short-term objective of trade in goods and services to a more strategic objective of integration through joint investments in each other's countries. It is my belief that an increase in the flow of goods and services would automatically follow.

Moreover, concerted efforts also need to be made to share financial services industry expertise and benefit from each other's successes in the relevant sectors."

The awareness of mutual funds is very low among the people of Pakistan. What is JSIL doing to increase the knowledge of mutual funds among the masses?

RM: "There is no doubt that Pakistan has made some progress on the growth in assets under management as AUMs have grown 13 times since FY01, however this was all done with a low-retail investor base.

It is essential that the mutual funds industry increases its outreach and penetration in both the urban and rural sectors, because mutual funds are an extremely easy and effective mode of investing for the masses. With mutual funds, the larger segment of the economy/population – i.e. household individuals, can benefit from the diversification of portfolio, professional fund management, access to var-

ious financial markets, etc. and all that at a very affordable cost.

We are diligently working to expand our retail network and are joining hands with numerous distribution partners (leading local and multinational financial institutions) to use their existing branch network to enhance retail penetration in mutual funds. In addition, we are entering into strategic-partnerships with our group partners, especially JS Bank, to make available our products through their extensive geographical spread.

In addition, we have recently enhanced our presence on the social media, which has greatly gained popularity in Pakistan, and are constantly promoting mutual funds and increasing awareness levels online. The Mutual Fund Association of Pakistan (MUFAP) has also undertaken numerous initiatives to promote investor awareness through various media."

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What are your plans for the future for JS Investments?

RM: "JSIL is set for a future of sustained organic growth over the next decade with prime focus on increasing participation from the retail segment and to help its investors achieve their financial goals by being the highest-value provider of investment products and services. We want to lead the industry to a further maturity level where it becomes a household synonym to savings. Our strategy banks upon unlocking the substantial retail potential and exploring strategic-partnership with leading financial insti-

tutions as well as to continue to employ our talented, diligent, and diverse HR to ensure that investors' needs are well cared for.

The key drivers of growth, in addition to demonstrated track record, will be relationship strengthening, branding and positioning. This growth shall be achieved through JSIL's own unique growth path by adhering to our broad policy objectives, which are: (i) value creation for clients on a sustainable basis, (ii) maintaining high standards of ethical behaviours and fiduciary responsibility, (iii) managing investments with prudence and with the aim of providing consistent returns better than that of peers, (iv) taking our products and services to the people; (v) creating awareness on understanding financial goals, risks and rewards, (vi) continued professional excellence — adapt, evolve and continuous improvement policy, and (vii) maintaining highly effective controls through strong compliance and risk management." □