

**PERFORMANCE ANALYSIS AND MANAGEMENT OF ASKARI INCOME FUND**



**Omar Bin Najeeb**

**Enrolment # 01-122052-020**

**Waleed Ayadh**

**Enrolment # 01-122052-038**

**A Project submitted in fulfilment of the**

**Requirements for the degree of MBA**

**DEPARTMENT OF MANAGEMENT SCIENCES**

---

**BAHRIA INSTITUTE OF MANAGEMENT & COMPUTER SCIENCES**

**ISLAMABAD**

**2008**

---

## TABLE OF CONTENTS

### CHAPTER 1

1	INTRODUCTION .....	1
1.1	OBJECTIVE .....	1
1.2	SCOPE OF THE PROJECT .....	2
1.3	BACKGROUND .....	2
1.4	SIGNIFICANCE OF STUDY .....	2
1.5	METHODOLOGY .....	3
1.5.1	DATA COLLECTION TECHNIQUE .....	3
1.5.2	ANALYSIS OF DATA .....	4
1.5.3	PROBLEM IDENTIFICATION .....	4
1.5.4	ACTION PLAN AND RECOMMENDATIONS .....	4

### CHAPTER 2

2	MUTUAL FUND .....	5
2.1	DEFINITION .....	5
2.2	INTRODUCTION .....	5
2.3	CONCEPT OF MUTUAL FUNDS .....	7
2.4	ORIGIN OF MUTUAL FUND .....	8
2.5	MUTUAL FUND ORGANIZATION .....	9
2.6	HOW A FUND IS CREATED .....	9
2.7	STRUCTURE OF MUTUAL FUNDS .....	10
2.8	SOURCES OF PROFIT GENERATION .....	11
2.8.1	DIVIDEND .....	11
2.8.2	CAPITAL GAINS .....	11
2.8.3	APPRECIATION OF SHARE PRICE .....	11
2.9	MUTUAL FUNDS AS FINANCIAL INTERMEDIARIES .....	12

### CHAPTER 3

3	ADVANTAGES AND DISADVANTAGES OF MUTUAL FUND .....	13
3.1	ADVANTAGES OF MUTUAL FUNDS .....	13
3.1.1	PROFESSIONAL MANAGEMENT .....	13
3.1.2	DIVERSIFICATION .....	13
3.1.3	VARIETY .....	14
3.1.4	LOW COSTS .....	14
3.1.5	LIQUIDITY .....	14

---

3.1.6	CONVENIENCE.....	15
3.1.7	PROTECTING INVESTORS.....	15
3.1.8	ECONOMIES OF SCALE .....	15
3.1.9	EASE OF KEEPING.....	15
3.2	DISADVANTAGES OF MUTUAL FUNDS .....	16
3.2.1	ECONOMIC AND BUSINESS CONDITIONS.....	16
3.2.2	PORTFOLIO MANAGED BY MANAGERS.....	16
3.2.3	MANAGEMENT FEES .....	16
3.2.4	DILUTION .....	17
3.2.5	TAXATION .....	17

**CHAPTER 4**

4	MUTUAL FUNDS AND ITS TYPES .....	18
4.1	TYPES OF MUTUAL FUNDS.....	18
4.1.1	OPEN-END MUTUAL FUND .....	18
4.1.2	CLOSED-END MUTUAL FUND .....	21
4.2	DIFFERENCE BETWEEN OPEN END & CLOSED END MUTUAL FUND.....	22
4.3	RISK AND RETURN ASSOCIATED WITH DIFFERENT TYPES OF MUTUAL FUNDS	22
4.3.1	MONEY MARKET FUNDS .....	23
4.3.2	BOND/INCOME FUNDS.....	23
4.3.3	BALANCED FUNDS .....	24
4.3.4	ASSET ALLOCATION FUND .....	24
4.3.5	STOCK/EQUITY FUNDS .....	24
4.3.6	GLOBAL/INTERNATIONAL FUNDS .....	25
4.3.7	SPECIALTY FUNDS .....	25
4.3.7.1	SECTOR FUNDS.....	25
4.3.7.2	REGIONAL FUNDS.....	25
4.3.7.3	SOCIALLY RESPONSIBLE FUNDS [OR ETHICAL FUNDS] .....	25
4.3.8	INDEX FUNDS .....	25

**CHAPTER 5**

5	INCOME FUND .....	26
5.1	DEFINITION.....	26
5.2	EXPLANATION .....	26
5.3	OBJECTIVE OF INCOME FUND.....	27
5.4	WHO SHOULD INVEST IN INCOME FUNDS?.....	28

**CHAPTER 6**

6	ASKARI INVESTMENT MANAGEMENT [AIM] .....	29
6.1	VISION.....	29
6.2	INTRODUCTION TO ASKARI INCOME FUND [AIF].....	29
6.3	INVESTMENT OBJECTIVES.....	30
6.4	BENEFITS OF ASKARI INCOME FUND .....	30
6.5	INVESTMENT POLICY OF AIM.....	31
6.6	RESTRICTIONS ON INVESTMENT.....	32

**CHAPTER 7**

7	ASSET ALLOCATION IN ASKARI INCOME FUND .....	33
---	--	----

**CHAPTER 8**

8	POLICIES OF ASKARI INCOME FUND [AIF] .....	34
8.1	BORROWING POLICY .....	34
8.1.1	LIMIT .....	34
8.1.2	EXCEPTION.....	34
8.1.3	PLEDGE .....	34
8.2	DISTRIBUTION POLICY .....	35
8.2.1	DECLARATION OF DIVIDEND .....	35
8.2.2	DETERMINATION OF DISTRIBUTION INCOME.....	36
8.2.3	DIVIDEND REINVESTMENT .....	36
8.2.4	ENCASHMENT OF BONUS UNITS .....	36
8.2.5	PAYMENT OF DIVIDEND .....	36
8.2.6	DISPATCH OF DIVIDEND.....	36
8.2.7	REGISTER CLOSURE.....	37
8.3	RISK DISCLOSURE .....	37
8.3.1	CREDIT RISK.....	37
8.3.1.1	DEFAULT RISK.....	38
8.3.1.2	CREDIT SPREAD RISK .....	38
8.3.1.3	DOWNGRADE RISK .....	38
8.3.2	DERIVATIVE RISK .....	38
8.3.3	CONCENTRATION RISK.....	39
8.3.4	RETURN/MARKUP RISK RATE .....	39
8.3.5	GOVERNMENT REGULATION RISK .....	39
8.3.6	REDEMPTION OF FUND UNIT RISK .....	39
8.3.7	LIQUIDITY RISK .....	40

8.3.8	REPURCHASE AND REVERSE REPURCHASE TRANSACTIONS AND SECURITIES LENDING RISK .....	40
8.3.9	MARKET RISK.....	40
8.3.10	OTHER RISKS INVOLVED .....	40

## CHAPTER 9

9	CHARACTERISTICS OF UNITS.....	41
9.1	MINIMUM INVESTMENT.....	41
9.2	VARIOUS TYPES OF UNITS OFFERED .....	41
9.3	PROCEDURE FOR PURCHASE OF UNITS.....	42
9.3.1	ELIGIBILITY CRITERIA.....	42
9.3.2	PURCHASE OF UNITS .....	43
9.3.3	JOINT APPLICATION .....	43
9.4	PROCEDURE FOR REDEMPTION OF UNITS .....	44
9.4.1	REDEMPTION OF UNITS .....	44
9.4.2	APPLICATION FOR REDEMPTION .....	44
9.5	SUSPENSION OF DEALING, QUEUE SYSTEM & WINDING UP.....	45
9.5.1	SUSPENSION OF FRESH ISSUE .....	45
9.5.2	SUSPENSION OF REDEMPTION OF UNITS .....	46
9.5.3	QUEUE SYSTEM .....	46
9.5.4	WIDING UP IN VIEW OF MAJOR REDEMPTION.....	47

## CHAPTER 10

10	TAXATION ON INCOME FUND .....	48
----	-------------------------------	----

## CHAPTER 11

11	MANAGEMENT OF FUNDS.....	49
11.1	CALCULATION OF NAV.....	49
11.2	CALCULATION OF YIELD .....	51
11.3	CALCULATION OF PROFIT .....	52
11.4	REDEMPTION .....	53
11.4.1	REDEMPTION OF INVESTMENT.....	53
11.4.2	CALCULATION OF ANNUALIZED YIELD ON REDEMPTION.....	55

**CHAPTER 12**

12	FAIR VALUE OF ASKARI INCOME FUND .....	56
12.1	FAIR VALUE CALCULATION .....	57
12.1.1	WEIGHTED AVERAGE COST OF CAPITAL .....	57
12.1.2	VALUE OF CASHFLOWS .....	58
12.1.3	TOTAL OUTSTANDING UNITS .....	59

**CHAPTER 13**

13	FINANCIAL ANALYSIS OF ASKARI INCOME FUND .....	60
13.1	PERFORMANCE OF PAKISTAN ECONOMY .....	60
13.2	PERFORMANCE OF PAKISTAN STOCK MARKET .....	60
13.3	FINANCIAL PERFORMANCE OF ASKARI INCOME FUND .....	61
13.4	SECTOR DISTRIBUTION OF INCOME .....	62

**CHAPTER 14**

14	INCOME FUNDS INDUSTRY-COMPETITOR ANALYSIS .....	63
14.1	NET ASSET VALUE .....	64
14.2	RETURN ON INVESTMENT .....	65
14.3	DIVIDEND PAYOUT RATIO .....	66
14.4	MANAGEMENT FEES .....	67

**CHAPTER 15**

15	PROBLEM STATEMENT .....	68
15.1	LACK OF PROPER INFRASTRUCTURE .....	68
15.2	HUMAN RESOURCE PROBLEM .....	70
15.3	LAUNCHING PLATFORMS .....	70
15.4	ILLITERATE INVESTORS .....	71
15.4.1	LACK OF CONFIDENCE ON NAV VALUE .....	71
15.4.2	EMOTIONAL INVESTORS .....	72
15.4.3	LONG PROCEDURE .....	72
15.5	IRREGULAR STREAM OF INCOME .....	72
15.6	SEPARATE IDENTITY .....	73
15.7	RETURNS TO ONLY HIGH PROFILE CUSTOMERS .....	73
15.8	CONFLICT BETWEEN BRANCHES NETWORK AND AIM .....	74
15.8.1	THREAT TO LOSE HIGH PROFILE CUSTOMER BY ASKARI BANK .....	74

15.8.2	TWO BOSS CONFLICT .....	74
15.9	UNDERSTANDING LOCAL BEHAVIOR OF CUSTOMER .....	75
15.10	COMPETITION .....	75
15.11	ALLOCATION OF LIMITED BUDGET .....	75
15.12	MARKETING .....	76

**CHAPTER 16**

16	ACTION PLAN .....	77
16.1	PROMOTIONAL STRATEGY .....	77
16.2	HUMAN RESOURCE .....	78
16.3	EMPLOYEE TRAINING .....	78
16.4	MTO TRAINING PROGRAMME .....	79
16.5	INTER BRANCH CONFLICT .....	79
16.6	PERSONAL FINANCIAL CONSULTANTS .....	79
16.7	NETWORK OF ASKARI BRANCHES .....	80
16.8	THROUGH CONSUMER BANKING SERVICES GROUP .....	80

**CHAPTER 17**

17	RECOMMENDATION AND CONCLUSION .....	81
17.1	RECOMMENDATIONS .....	81
17.2	CONCLUSION .....	81

**REFERENCES AND ANNEXURE**

## EXECUTIVE SUMMARY

The research work included in this project analyzes the understanding, functioning, and maintenance of a typical income fund in Pakistan. It also covers the comparative study of the public and private sector income funds, key players in this sector and their performance. For this matter, Askari Income Fund [AIF] is chosen. The relevant policies that are applicable in AIF and those that proved to be successful over time in AIF were studied, and finally recommended to Pakistan.

The existing market of income funds in Pakistan is not fully structured and at the same time it lacks due attention to be given by common investor. It covers the problems income fund industry faced since its inception in the country, performance of other existing Income Fund Management Companies, Barriers in the development of this income fund since its inception and the challenges and opportunities AIF is facing.

The research also covers the management of Income Fund, how Net Asset Value is calculated and various other financials associated with the Redemption of Units of Income Fund, calculation of Annual yield etc. The Fair value of the Askari Income Fund is also calculated.

A wind of change is blowing across the income fund industry. The future of the industry appears to be promising and is poised for growth. Income Fund industry can thrive on a sustainable basis only if new innovative products are continuously introduced in the industry.

Thus, to conclude, there are many opportunities for this sector in Pakistan as well as for AIF. Some steps have been taken but the pace of work is slow. More can be accomplished through realizing its importance.