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Evaluating Open-End Mutual Funds Style and Performance in Respect of Investors

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1.1) Introduction:

Never in their wildest of dreams had the three Boston securities executive who pooled their money together to create the first official mutual fund in 1924 imagined how popular these would become for channelizing savings. Today, not only in the developed world where trillions of dollars are invested in these funds, but also in developing countries like Pakistan mutual funds are growing at a galloping pace and have become an important vehicle for investing one's savings.

Mutual funds first found their way into Pakistan in 1962 with the National Investment Trust (NIT). This was an open-end fund followed by a series of closed end mutual fund by the Investment Corporation of Pakistan four years later in 1966. ICP have since privatized and NIT remains only the public sector mutual fund today. During 1991-1996 the private sector floated a total 12 close end mutual funds. The number of mutual funds since then has increased to 20 closed end and 18 open end mutual funds. Pakistan's mutual funds industry is still in its infancy stage: the number of investors is just around a few thousands and the total net assets are around \$ 2.2 billion.

Mutual Fund

A mutual fund company pools money from many investors and purchases different securities on their behalf. Proportionate to their investments, investors share in the investment gains and losses produced by the fund. Each mutual fund has an investment manager, or investment adviser, who manages the fund to meet its investment objectives as described in that particular fund's prospectus.

Mutual funds are publicly traded regulated investment companies. A mutual fund is a firm pooling and managing the funds of its investors. Mutual funds can be classified in several ways: open or closed end, load or non-load, diversified or non-diversified, and actively-managed or indexed.

1.1.1) History of Mutual Funds

- The mutual fund industry was born in United States 80 years ago.
- The first open-end mutual fund, Massachusetts Investors Trust was founded on March 21, 1924 and after one year had 200 shareholders and \$392,000 in assets.
- The SEC (U.S Securities and Exchange Commission) helped create the Investment Company Act of 1940 which provides the guidelines that all funds must comply with today.
- By the end of the 1960s there were around 270 funds with \$48 billion in assets.

Investment in Mutual Funds across the globe

The strongest advantage mutual funds have is that they are less risky and offer reasonable returns as compared to gold, individual stocks, etc.

- 6% of bank deposit in Pakistan are invested in mutual funds where as 30% of bank deposits in India are invested in mutual funds.
- United States \$7 trillion
- Europe \$5 trillion
- Japan \$500 billion
- India \$13 billion
- Pakistan \$2.2 billion
- Worldwide Investment at the end of 1st Quarter of 2004: \$14.6 trillion.

1.1.2) Funds Classification

Mutual funds are frequently classified by investment objectives based on size, style, and geography. The definitions of size (small, medium, and large, as measured by market capitalization) and style (value and growth, as measured by book value-to-market value ratio or its inverse) are simplistic at best and misleading at worst. Moreover, size and value are logically circular explanations of total return which includes both price appreciation and dividends. Therefore, any size or style of stock can be expected to return over time and across stocks as much or as little as any other size or style.

Funds Performance

Fund classification is the first implicit step in fund performance evaluation. Often performance is measured against a benchmark such as a market index and against other funds in the same category, often a peer group index. Any mutual fund can be shown to have better or worse performance depending on three choices: **first**, the holding period; **second**, the metric of performance; and **third**, the benchmark if relative performance is measured. Performance measurement based on comparison to an benchmark that is erratic can say more about the benchmark than the mutual fund.

1.1.3) Type Of Mutual Funds

Open-end mutual fund:

These are mutual funds which continually create new units or redeem issued units on demand. They are also called unit trusts, because they are registered as trusts. The unit holders buy the units of the fund or may redeem them on a continuous basis at the prevailing NAV.

Closed – end mutual fund:

Close- end mutual funds are more like to the stock of a listed company, a fixed number of whose shares are traded on an exchange. The shares of closed-end mutual funds are period at market value determined by supply and demand and are not price at the fund's assets per share value and thus may trade below or above the net asset value; if the shares of a closed-end mutual fund trade above the net asset value the fund is said to be trading at “premium” and if it is trading below the fund is said to be trading at a “discount”. A featured of close-end funds is that they can be converted into open-end funds. They follow a fixed trust structure.

Offshore funds

Offshore funds are managed by large institutions and are registered outside the US. To be sold in the US, offshore funds must abide by strict federal and state regulations.

1.1.4) List of Open-end Funds in Pakistan

There are in all eighteen open-end fund in Pakistan. They are:

S.No	Arif Habib Investments
1	Pakistan Stock Market Fund
2	Pakistan Income Fund
3	Metrobank-Pakistan Sovereign Fund
	Atlas Asset Management Company
4	Atlas Income Fund
5	Atlas Sock Market Fund'
6	Atlas Fund of Funds
	Abamco Asset Management Company
7	Unit Trust of Pakistan
8	UTP-Income Fund
9	UTP-Islamic Fund
10	UTP-Aggressive Asset Allocation Fund
	Faysal Asset Management Limited
11	Faysal Balanced Growth Fund
	Dawood Capital Management Limited
12	Dawood Money Market Fund
	Crosby Asset Management Limited
13	Crosby Dragon Fund
	Al-Meezan Investment Management Company
14	Meezan Islamic Fund
	United Asset Management Company
15	United Money Market Fund
	National Investment (Unit)Trust Limited
16	National Investment Trust
	Bank Alfalah
17	Alfalah GHP Value Fund

Table # 1

1.1.5) Selected Types of Open End Mutual Funds

Unit Trust of Pakistan (UTP) :

Unit Trust of Pakistan (UTP) is the first open-end mutual fund in Pakistan's private sector. UTP was established under a Trust Deed, dated April 26, 1997 and as subsequently amended by a Supplemental Trust Deed dated January 16, 2001, between ABAMCO Limited as the management company and Muslim Commercial Financial Services (Pvt.) Limited, a wholly-owned subsidiary of Muslim Commercial Bank Limited, as the trustee. Subsequently, under the terms of a Deed of Change of Trustee & Amendment of Trust Deed, dated June 11, 2005 the trustee of the fund has been changed to The Central Depository Company (CDC) of Pakistan Limited.

Shares of companies which are either

- consistently dividend paying
- having growth prospects
- actively traded
- Debt instruments with good credit rating
- Short-term money market instruments

UTP Islamic Fund:

UTP-Islamic fund is the first Shariah complaint open-end mutual fund of Pakistan, established under a Trust Deed, dated December 16, 2002 between ABAMCO Limited as the Management Company and Muslim Commercial Financial Services (Pvt.) Limited, a wholly-owned subsidiary of Muslim Commercial Bank Limited, as the Trustee.

The main focus of the UTP-Islamic Fund is to provide an outlet to investors who want 'Riba-free' rate of returns.

The fund invests in shares of companies which:

- Meet the Shariah Compliance criteria
- Are consistently dividend paying
- Have growth prospects
- Are actively traded

UTP Income Fund:

UTP- Income Fund (UTP- IF) is the second open-end mutual fund launched by ABAMCO Limited. UTP-IF is established under a Trust Deed, dated July 18, 2002 between ABAMCO Limited as the Management Company and Muslim Commercial Financial Services (Pvt.) Limited, a wholly-owned subsidiary of Muslim Commercial Bank Limited, as the Trustee. Subsequently, under the terms of a Deed of Change of Trustee & Amendment of Trust Deed, dated May 28, 2005 the trustee of the fund has been changed to The Central Depository Company (CDC) of Pakistan Limited.

The fund invests in a portfolio of fixed income securities including:

- Investment Grade Debt Securities
- Government Securities
- Money Market Instruments
- Carry Over Transactions (COT)

Pakistan Stock Market Fund:

The Pakistan Stock Market Fund (PSM FUND) has been established through a Trust Deed under the Trust Act 1882 entered into between Arif Habib Investment Management Limited (AHIML), as the Management Company and Central Depository Company of Pakistan Limited as the Trustee and is authorized under the Asset Management Company Rules, 1995.

The prime objective of the Fund is to provide investors a facility to invest through one simple transaction into a range of Pakistan's high quality liquid shares primarily of listed companies whilst keeping a special interest in shares of companies that offer value in terms of potentially good dividend yields or growth opportunity.

Long-term growth in the value of the investment that should not only beat the underlying inflation rate in Pakistan but also out-perform most other types of investments.

Add value relative to the market: Based on the proposed composition of the Fund, it will be relatively underweight in the high capitalization stocks that individually form a weight of more than ten percent of the KSE-100 Index. This should result in better performance relative to the Index in a bear market. On the other hand, the funds invested in the shares with high dividend yield and growth potential are likely to add value to the Fund relative to the Index in the long run.

□

Pakistan Income Fund:

The Pakistan Income Fund (PIF) has been established through a Trust Deed under the Trust Act 1882 entered into between Arif Habib Investment Management Limited (AHIML), as the Management Company and Central Depository Company of Pakistan Limited as the Trustee and is authorised under the Asset Management Company Rules, 1995.

The Fund seeks to achieve the following benefits for the investors:

Offer the benefit of returns available from investments in spread transactions, Carry Over Transactions (COT), debt securities; money market instruments and short maturity repurchase transactions. Such investments are normally an exclusive domain of large-scale (wholesale) investors.

The focus of investment policy is to protect capital by diversifying the investments and by managing maturities in a manner that reduce the risk of loss in market value of the investments as the result of any major upward movement in lending rates.

1.1.6) Open End Mutual funds Invest in four types of markets

- **Fixed Income**

These funds primarily invest in assets that pay a fixed return e.g. bank deposits, COT, Treasury bills, term finance certificates, Government bonds and spread transactions etc. they are generally not affected by volatility at the stock exchanges. The elements of risk in these funds is very low providing reasonable returns.

- **Equity**

These funds invest mainly in the equity (stocks) of companies and undertake the risk of prices movement at the stock exchange. Such funds are clearly expected to out perform other types of funds in a rising market. Their strength is the expected capital appreciation and windfall income through capitals gains.

- **Balanced Funds**

These funds invest only in those instruments, which are Shariah compliant or offer Riba-free income. The basic rule is that the companies in which money is invested should not be involved in a business prohibited by the Shariah or bulk of income is not drawn from Interest based transactions.

- **Fund of Funds**

These funds invest only in others open end or close end mutual funds only as rule are defined in the trust deeds.

- **Hybrid Funds**

These funds managed balanced and growth

Selection criteria of Fund

- Universe of stocks
- Investment objective
- Investment strategy
- Selection criteria
- Percent invested (non-cash)
- Portfolio turnover
- Tax efficiency

1.1.7) Mutual Fund Fee Structures

Mutual funds are great ways to diversify risk and make money. However, the fees charged on mutual funds are often difficult to understand. The following information can help you sift through the jargon to determine how much you are truly giving up for fund management.

A fund's expense ratio is the total amount that a fund takes out to cover all expenses. This amount is expressed as a percentage of the value of the fund and does not include any sales charges.

These are highlighted types of fees:

- Sales charges
- Redemption fees
- Management fees
- 12b-1 fees

Risks of Investing in Mutual Funds

All investments in mutual funds and securities are subject to market risks. Their target return/ dividend range cannot be guaranteed. Their price is neither guaranteed nor administered/ managed. It is based on the NAV, which may go up or down depending, to some extent, upon the factors and forces affecting the stock market. Past performance is not necessarily indicative of future results. The risk may vary depending upon the investment strategy of funds and whether they are balanced, fixed-income or equity funds.

1.1.8) Benefits of Investing in Open-end Mutual Funds

Open-end mutual funds offer investors many benefits that would be difficult for average investors to achieve individually.

- Accessibility
- Mutual fund units are easy to buy.
- Liquidity

Mutual fund unit holders can convert their units to cash on any working day. They will promptly receive the current value of their investment (which may be more or less than the original cost). Investors do not have to find a buyer; the fund must buy back (redeem) the units.

- **Diversification**

By investing the pool of unit holders money across varying dozens of securities, a mutual fund diversifies its holdings. A diversified portfolio reduces the investors risk in case some of the investments turn sour. It would be difficult for an average

investor to buy enough of different securities to achieve the same level of diversification as a mutual fund.

- **Professional Management**

Professional investment advisers manage the money invested in a mutual fund. They make their investment or disinvestment decisions based on extensive research into the investments that are being considered. The investment adviser also takes into account general economic, political and market trends. The investment adviser opts for the investments that match the fund's objectives and investment policies.

- **Affordability**

Mutual funds offer a way for small investors to receive the benefits of investment in corporate sector of the country and benefit from the growth in the economy. The performance of a mutual fund, to an extent, is linked with the performance of the economy and the return to investors may accordingly go up or down.

1.1.9) How Mutual Funds Generate their Income

Income

- Depending on the investment policy of the mutual funds, the main sources of income are:

Dividends from equity investments.

- Return from term finance certificate or corporate paper.
- Profit from Government securities.
- Return on deposits/ COIs with banks/ financial institutions.
- Profit from carry-over trades.
- Profit from money market transactions.
- Profit from PLS accounts with banks.
- Capital gains or losses on sale of equity securities, term finance certificates and Government securities.

Any appreciation in the value of investment, but not realized, is not taken as income, but recognized for calculating the NAV.

Expenses

- Cost of borrowing.
- Remuneration of investment adviser/ asset management company.
- Remuneration of trustee/ custodian.
- Transaction cost.
- Audit/ legal/ rating fees.
- The diminution in market value of investment.

RULES GOVERNING MUTUAL FUND

- NBFC Rules, 2003
- Prudential Regulations for NBFC's
- Mutual funds are regulated by the Securities and Exchange Commission of Pakistan (SECP).

1.1.10) Statistical Position

Data as Of December 31, 2005 And 2003

No.	Type of Funds	December 31, 2004		December 31, 2003	
		Number of Funds	Net Assets under Management (in US\$ million)	Number of Funds	Net Assets under Management (in US\$ million)
1.	Equity funds	17	1,471	17	1,143
2.	Bond Funds	01	8	01	9
3.	Balanced Funds	08	269 1		48
4.	Income/ Money Market Funds	05	130 4		114
	Grand Total	31	1,878	23	1,314

Table # 2

Data Relating To Investors In Mutual Funds

No. of Investors Date

	Dec. 31, 2003	Dec. 31, 2004
Individual	138,643	155,192
Corporate	<u>3,695</u>	<u>15,977</u>
Total	142,338	171,169

1.1.11) HOW TO READ A FUND PROSPECTUS

Key Elements of a Mutual Fund Prospectus are :

Date of issue

First, verify that you have received an up-to-date edition of the prospectus. A prospectus must be updated at least annually.

Minimum Investment

Mutual funds differ both in the minimum initial investment required, and the minimum for subsequent investment.

Investment objective

The goal of each fund should be clearly defined such as income with preservation of principal or long-term capital appreciation. Be sure the fund's objective matches your objective.

Investment policies

A prospectus will outline the general strategies the fund managers will implement. You will learn what types of investments will be included, such as government bonds or common stock. The prospectus may also include information on minimum bond ratings and types of companies considered appropriate for a fund. Be sure to consider whether the fund offers adequate diversification.

Risk factors

Every investment involves some level of risk. In a prospectus you will find descriptions of the risk associated with investment in the fund. Refer to your own objectives and decide if the risk associated with the fund's investment matches your own risk tolerance.

Performance data

You will find selected per-share data including net asset value (NAV) and total return for different time periods since the fund's inception. Remember that past results do not guarantee future performance.

When evaluating performance, look at the track record of a fund over a time period that matches your own investment goals.

Fees and expenses

Sales and management fees associated with a mutual fund must be clearly listed. The prospectus will also display the impact these fees and expenses would have on a hypothetical investment over time.

Tax information

A prospectus will include information on the tax status and implications of a fund's distributions, and whether they will be treated as dividend income or capital gains.

Investors services

Shareholders may have access to certain services, such as automatic reinvestment of dividends and systematic withdrawal plans.

Be sure to read the prospectus and ask questions about items that you are not sure about before investing.

1.1.12) HOW TO ASSESS A FUND MANAGER'S INVESTMENT STYLE AND ITS IMPACT ON RETURNS

Some fund managers follow an investing "style" to try and maximize fund performance while meeting the investment objectives of the fund. Fund styles usually fall within the following three categories.

Fund styles:**Value**

The manager invests in stocks believed to be currently undervalued by the market.

Growth

The manager selects stocks they believe have a strong potential for beating the market.

Blend:

The manager looks for a combination of both growth and value stocks.

To determine the style of a mutual fund, consult the prospectus as well as other sources that review mutual funds. Don't be surprised if the information conflicts. Although a prospectus may state a specific fund style, the style may change. Value stocks held in the portfolio over a period of time may become growth stocks and vice versa. Other research may give a more current and accurate account of the style of the fund.

1.1.13) HOW TO EVALUATE FEES AND EXPENSES

Mutual funds charge some amount for their services. Of course these charges will affect the amount of money you will have someday. The secret is to evaluate the full potential of an investment the amount you keep after paying the fees. Here is a simple strategy to help you get started.

1. Understand charges that apply to mutual funds.
2. Compare charges that apply to mutual funds.
3. Consider redemption fees or rates (difference of buying selling).

Shareholder Fees

These fees are paid directly from the share-holder's account and may include:

Sales Charge

This fees, also called a "load," is paid to the shareholder's investment professional as compensation for acting as the intermediary between the fund company and the investor.

Front-end Load

This load is imposed at the time of the purchase. It is shown as a percentage of the fund's offering price (the fund's price per share, which includes the front-end sales charge).

Exchange Fee

This fee is levied to help defray the administrative costs associated with exchanging from one fund to another within the same family, within the same class of shares. Often, a fund will allow a certain number of fee exchanges before imposing this fee.

Redemption Fee

In an attempt to discount frequent trading in and out of a fund, a redemption fee may be imposed. This fee may be eliminated after the shares are held within a fund for a certain amount of time, such as 30 or 60 days. This fee can apply to redemptions as well as exchanges out of fund.

Account Fee

This may be applied to help cover the administrative costs of maintaining an account. For example, some funds may charge an annual fee.

Annual Fund Operating Expenses

These expenses are deducted from the fund's assets and typically cover ongoing costs associated with running the fund itself. These may include the following:

Management Fee

This is often the largest operating expenses and it covers the costs associated with the professional management of a fund's portfolio.

Other Expenses

These include miscellaneous custodial, legal, accounting and other administrative expenses associated with operating a mutual fund.

No Load Doesn't Mean No Fees

Although mutual funds labeled as "no load" don't have an up front sales charge that does not mean they are free of other charges. No-load funds may carry purchase fees, redemption fees, exchange fees and account fees. And of course, shareholder of almost all funds are subject to the indirect cost associated with annual operating expenses.

1.1.14) HOW TO EVALUATE RISKS

Different mutual funds have inherently different risk characteristics and should not be compared side by side. A bond fund with below average risk, for example, should not be compared to a stock fund with below average risk. Even though both funds have low risk for their respective categories, stock funds overall have a higher risk/return potential than bond funds.

Mutual funds face risks based on the investment they hold.

Following is a glossary of some risks to consider when investing in mutual funds.

Call Risk

The possibility that falling interest rates will cause a bond issuer to redeem or call its high yielding bond before the bond's maturity date.

Country Risk

The possibility that political events (a war, national elections), financial problems (rising inflation, government default), or natural disasters (an earthquake, a poor harvest) will weaken a country's economy and cause investments in that country to decline.

Credit Risk

The possibility that a bond issuer will fail to repay interest and principal in a timely manner. Also called default risk.

Currency Risk

The possibility that returns could be reduced because of a rise in the value of the currency against foreign currencies. Also called exchange-rate risk.

Income Risk

The possibility that a fixed-income fund's dividends will decline as a result of falling overall interest rate.

Industry Risk

The possibility that a group of stocks in a single industry will decline in price due to development in that industry.

Inflation Risk

The possibility that increases in the cost of living will reduce or eliminate a fund's real inflation-adjusted returns.

Interest Rate Risk

The possibility that a bond fund will decline in value because of an increase in interest rates.

Manager Risk

The possibility that an actively managed mutual fund's investment advisor will fail to execute the fund's investment strategy effectively resulting in the failure of stated objective.

Market Risk

The possibility that stock fund or bond fund prices overall will decline over short or even extended periods. Stock and bond markets tend to move in cycles, with periods when prices rise and other periods when prices fall.

Principal Risk

The possibility that a investment will go down in value, or "lose money," from the original or invested amount.

How To Calculated Return On Investments

You make money from mutual fund investment when:

The fund earns income on its investments, and distributes it to you in the form of dividends.

The fund produces capital gains by selling securities at a profit, and distributes those gains to you.

You sell your shares of the fund at a higher price than you paid for them

The average annual return for a mutual fund is stated after expenses. The expenses include fund management fees. Average annual returns are also factored for any reinvested dividend and capital gain distributions. To compute this number, the annual returns for a fixed number of years (e.g. 3, 5, life of fund) are added and dividend by the number of years, hence the name "average" annual return. This specifically means that the average annual return is not a compounded rate of return. In addition to this appreciation in the sale price of the fund share / unit over that period is also part of the profit.

Pricing Methodology

Is the fund has forward pricing mechanism or it announces the offer and redemption prices in advance? Generally, stock funds or the funds having significant equity asset class follow forward pricing mechanism to avoid arbitrage against the fund.

Paying Too Much In Expenses

Costs matter. Fund expenses- the costs of running a fund, measured by its expense ratio- come directly out of the fund's income and can significantly dampen your return. Over time, a seemingly small difference in expenses can have a big effect on your nest egg.

Managers of high-cost funds have to earn higher returns in light of expenses just to outperform their low-cost peers. Mind it there might be some expenses whose dilution effect to the fund's earnings could not be picked from the naked eyes, you might require to go deep into the waters to see such effects. All else being equal, it is recommended to avoid funds with high expenses.

Fund Size

Every fund category has a range of assets under management where, all other factors being equal, fund managers have their best chance to compete against their peers. In general, it's best to avoid funds with really small asset bases. And, it's generally best to avoid small cap funds with large amounts of assets under management. Selecting the right size fund is no guarantee of success, but it can enhance your prospects for a better return.

Putting Too Much In Focused Funds

Focused funds concept is new to our environment due to limited market size. However, as the size of the market grows we would witness emergence of focused funds. Focused funds are limited to a single sector or even in the case of very large market cap companies limited to a single company.

Investing too much in the focused fund is exposing you to volatile returns. Focused funds are subject to greater volatility than diversified funds because they fail to completely diversify security and sector risk.

Risk Controls

Risk controls are policies such as limit on stock or sector weights. Although, NBFC Rules address this issue to a basic extent however, it is really an internal risk control policy and its effective implementation that provides security and disciplined returns to the investors. They set the playing field for a fund and ensure that the portfolio manager seeks to generate returns in an efficient manner.

Being the investor in the fund you have the fullest right to learn about what types of risk controls portfolio managers use while exercising options to buy or sell specific securities. The more risky or volatile the investment category, the more important it is to have these controls in place.

1.1.16) Current Status

The Open end Mutual Funds are growing very rapidly in Pakistan and many small investors and corporate sectors are investing without any doubt because it is safe and some funds are kind of Islamic mode.

Now, Present seventeen Asset Management Company's (AMC) are operating Mutual Funds and expected in future banks and multinational company may come in Asset Management field because in world wide the demand of AMC is high and around 14.6 trillion funds operating them so in the Pakistani market mutual fund industry will grow.

Most of the business man and core investors investing in mutual fund rather than investing in other sectors such (Real Estate, Forex Exchange and Stock Exchange). Investors invest in seeds capital to get more dividend at par value and after couple of year they get more income on current NAV.

1.2) Statement of Problem:

Research will be conducted on:

“Evaluating style and performance of open end mutual fund in respect of investors”

this research is basically about find the ratio of investment in different funds.

1.3) Significance of the Study:

- This study will help to know about the present situation of the open end mutual fund.
- This report is helpful in getting knowledge about open-end mutual funds its investment and strategies for small investors and corporation.
- This research will help to corporate institutional sectors to understand how funds are operate.
- Decision making is a key aspect for any investors. Before making an investment decision one must have ample knowledge and must have evaluate all risk factors.

1.4) Scope of the study:

The research has certain limitation

- The research is based on the information gathered by different sources.
- Due to unavailable exact information about how much company invest in different sectors as according to fund strategies so some cases ratio of the investment will be assume.
- The research is based on fund size and current NAV price.
- This research is conducted in the area of Karachi for UTP, UTP Islamic, UTP Income and Pakistan Stock Market Fund only.

1.5) De-limitation:

This research has certain delimitation

- It is expected that their might be a change of Fund size in future that can affect the performance of the fund may be positively or negatively.
- There might be rules and regulation changed by the SECP.
- Profitability, Economic and political conditions performance of a company bearish / bullish trend of KSE can effect the investment decision.

1.6) Basic Assumption:

- Results are calculated on certain basis that may change in future possible ratios of different open end mutual funds are taken.
- Results based on past and present performance and fluctuation in the prices of mutual fund is also taken for evaluation.

1.7) Definitions of Terms:

Constitutive Document

means the Trust Deed that is the principal document governing the formation, management or operation of the Trust.

Deposited Property

means the aggregate proceeds of the sale of all Units at offer price after deducting there from or providing there out any applicable Sales Load and Duties and Charges and includes the Investment and all income, profit and other benefits arising there from and all cash and other assets movable or immovable and property of every description for the time being held or deemed to be held upon trust by the Trustee for the benefit of the Holders pursuant to the Trust Deed but does not include any amount standing to the credit of the Distribution Account.

Front-end Load or Preliminary Charges

means the Sales Load that is included in the Offer Price of Units.

Initial Period or Initial Offering Period

means a period determined by the Management Company not exceeding ninety days during which Units will be offered at the Initial Price in terms of the Offering Document.

Register

means the Register of the Holders kept pursuant to the Rules and the Trust Deed.

Transfer Agent

means a company including a Bank that the Management Company shall appoint for performing the Registrar Function.

Unit

means one undivided share in the Trust.

Offering Document

means the prospectus, advertisement or other document, which contains the investment and distribution policy and all other information in respect of the Unit Trust, as, required by the Rules and is calculated to invite offers by the public to invest in the Unit Trust.

Sharia Complaints

A *Sharia* compliant fund is a fund that does not invest in shares of companies drawing the bulk of their income from *Riba*-based operations and/or undertakes activities prohibited by *Sharia*.

Fund Manager

A sponsor is any person who, acting alone or in combination with another corporate body, establishes a MF. It obtains the certificate of registration as a MF from Securities and Exchange Commission of Pakistan (SECP). The sponsor of a fund is similar to the promoter of a company. In accordance with SECP Regulations, the sponsor appoints a Trustee, and also generally appoints an Asset Management Company (AMC) as fund manager.

NBFC

NBFC carrying out investment finance services, provided it has been approved by SECP to act as trustee. The trustees being the primary guardians of the unit holders' funds and assets have to be persons of high repute and integrity.

12b-1 Fees

The advertising, marketing, sales and distribution and administration fees are 12b-1 fees.

Redemption Price

means the amount to be paid to the relevant Unit Holder of a Unit upon redemption of that Unit

2.1) Research Design & Methods:

Purpose of the study

The research is basically “**Descriptive In Nature**”. The purpose of the study to find the performance of the open end mutual fund which fund strategy are the most sufficient in the market.

A descriptive study will be undertaken with the intention that all associated variables are fully described.

Type of Study

It is an “**Analytical Study**” it will be analyzing the how to measure of the open end fund and how to evaluate risk according to fund strategies.

Study Setting

It is a “**Field Study**” and conducted in “**Non-Contrived Setting**”.

Researcher’s Interference

“Minimum Extent Of Interference”

The research will be conducted in natural environment with the normal flow of events. The data will be gathered and analyze so that the extent of interference of the researcher is none.

Time Horizon

It is a “**Cross Sectional Study**” as gathered the data from different sources only once by observation and interviews.

2.2) Respondents of the Study:

All the respondents of the study are the experts opinion and the organizations and some of the respondents are:

- SECP
- Arif Habib Investment
- ABAMCO
- Flow Securities Pvt Ltd

2.3) Research Instrument:

The data will be gathered through different sources in order to collect a sufficient data for making this project thesis more understanding, generalize and effective.

These sources for data collection will be primary and secondary sources.

Primary Data

- Structured interviews
- Unstructured interviews
- Observation

Secondary Data

- News papers
- Magazines
- Internet
- Books

2.4) Treatment of Data:

The data gathered regarding this topic is descriptive in nature and all statistical tools and risk factors will analyzed theoretically.

2.5) Presentation Analysis:

The data is generated from the primary and secondary both sources, therefore the presentation will be in the form of Tables, Mathematical figures and Graph.

3.) LITERATURE REVIEW

3.1) Local Literature:

The topic “Evaluating open end mutual funds style and performance in respect of investors” selected after examining the need and opportunity for small investors. Since investors has many options to invest their money, this topic will help to find out whether Mutual Fund is better option for small investor to make investment. To achieve the objective of topic different articles were searched from book, Internet, Newspapers and Magazines.

The basic knowledge about Mutual Fund has been taken from the article Mutual Fund Association of Pakistan, Pakistan Economist (Magazine) and foreign book (Guide to Mutual fund). The above sources helped in finding out complete knowledge about Mutual Fund, its type, and risk involved in Mutual Fund. The information regarding Income and expenses generated through Mutual Fund has been taken from the web site of Arif Habib securities.

Tables regarding total Net Asset Value of mutual fund sector taken from magazine Pakistan Economist and website of NIT.

Financial performance of both open-end Mutual Fund has been taken from the Financial Reports of the respective companies. Analysis of Mutual fund companies carried out after evaluating financial performance. Analysis also contains primary data gathered by taking interview from Small investors and fund manager of ABAMCO Asset Management Company.

The data regarding return of Mutual fund sector taken from the article of “Sliding Returns on Mutual Fund” by Jawaid Bukhari.

Conclusion is given after evaluating the cost and benefit of different Mutual Fund Companies. Recommendation researcher point of view is given with the help of foreign book (Basic concept of Mutual Fund).

Article # 1

The mutual funds rating methodology incorporates evaluation of performance of mutual funds and the quality of the fund manager. The methodology provides with a detailed

analysis of the overall quality of the fund manager and highlights the investment returns and risk relating to mutual funds. Under this methodology JCR -VIS assigns separate rating to:

Management Quality of Fund Manager
Performance of Fund

Article # 2

3.2) Foreign Literature :

3.2.1) Fund Performance

Fund classification is the first implicit step in fund performance evaluation. Often performance is measured against a benchmark such as a market index and against other funds in the same category, often a peer group index. Any mutual fund can be shown to have better or worse performance depending on three choices: first, the holding period; second, the metric of performance; and third, the benchmark if relative performance is measured. Performance measurement based on comparison to an benchmark that is erratic can say more about the benchmark than the mutual fund.

Article # 3

3.2.2) Fund Classification

Mutual funds are frequently classified by investment objectives based on size, style, and geography. The definitions of size (small, medium, and large, as measured by market capitalization) and style (value and growth, as measured by book value-to-market value ratio or its inverse) are simplistic at best and misleading at worst. Moreover, size and value are logically circular explanations of total return which includes both price appreciation and dividends. Therefore, any size or style of stock can be expected to return over time and across stocks as much or as little as any other size or style.

The major mutual funds families, mutual fund reviewers, and indexers most commonly use size, style, and geography to categorize funds and indexes. Practical fund categories include country of domicile where regulated and currency of record. Useful company categories include size as measured by annual sales revenue, growth as measured by three-year free compound increase in cash flow to common equity per fully-diluted share, and geography as measured by percentage of sales revenue originated in home country.

Article # 4

4.1) PERFORMANCE TABLE / KEY FINANCIAL DATA ABAMCO

4.1.1) UNIT TRUST OF PAKISTAN

Year ended June 30	2005	2004	2003
Net assets (Rs.in million)	3,444	3,300	1669
Net income (Rs.in million)	366	600	675

Number of units in issue	428,556	383,809	233,649
Per unit			
Net asset value (Rs.)	8,035	8,599	7,145
Net income (Rs.)	855	1,562	2,889
Cash/ stock dividend(Rs.)	1,000	1,500	12,50
Dividend as % of par value of units	20.00	30.00	25.00
Dividend as % of previous closing	11.63	20.99	23.16
Net asset value of units			
Highest unit price during the year (Rs.)	9,347	9,057	8,384
Lowest redemption price during the year (Rs.)	6,840	7,414	5,383

Net Assets as at June 30

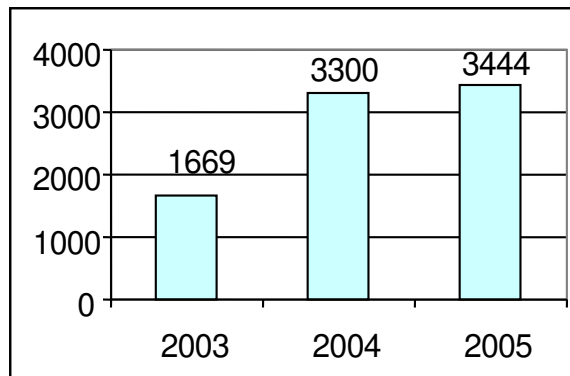


Fig # 1

Net Income

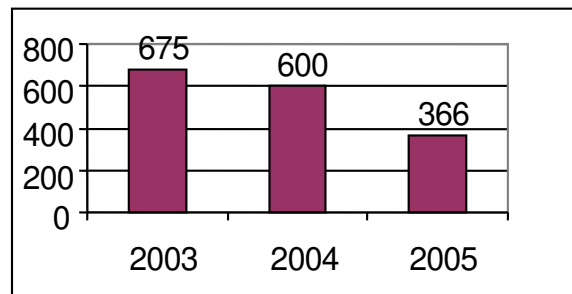


Fig # 2

HIGHEST OFFER PRICE / LOWEST REDEMPTION PRICE

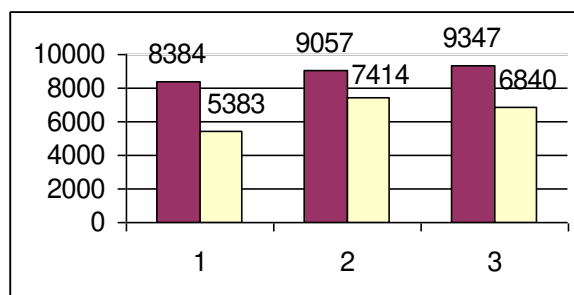


Fig #3

4.1.2) UTP INCOME FUND

Year ended June 30	2005	2004	2003*
Net assets (Rs.)	1,377,869,309	1,285,952,920	383,261,827
Net income (Rs.)	129,933,686	75,501,120	36,134,364
Number of units in issue	2,455,380	2,381,930	753,219
Per unit			
Net asset value (Rs.)	561	540	509
Dividend Distribution (%)	10.25	6.20	9.50
Highest offer price per unit (Rs.)	568.75	549.25	556.00
Lowest redemption price per unit (Rs.)	520.00	520.25	500.00

* Values calculated till December

Net Assets as at June 30

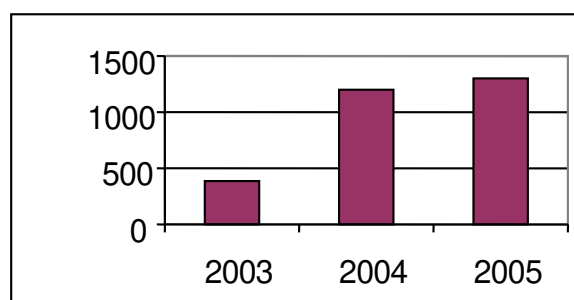


Fig # 3

Net Income

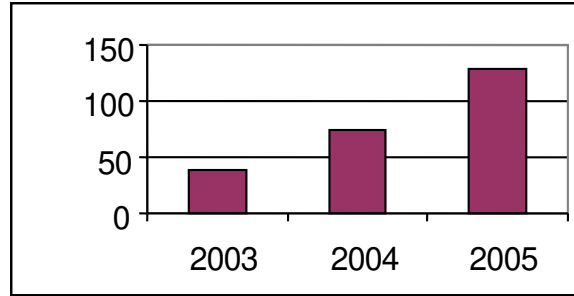


Fig # 4

HIGHEST OFFER PRICE / LOWEST REDEMPTION PRICE

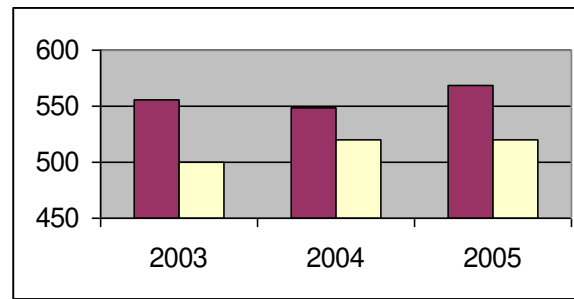


Fig # 5

4.1.3) UTP ISLAMIC FUND

Year ended June 30	2005	2004	2003*
Net assets (Rs.in million)	947,203,093	641,912,325	455,281,116
Net income (Rs.in million)	38,849,214	134,532,485	70,145,773
Number of units in issue	1,499,682	926,861	831,113
Per unit			
Net asset value per unit (Rs.)	632	693	548
Earning per Unit (Rs.)	26	145	84
Dividend Distribution (%)	10	17	8
Highest offer price per unit (Rs.)		736.50	584.00
Lowest offer price per unit (Rs.)	536.00	563.50	500.00
Highest repurchase price per unit (Rs.)	739.25	736.50	584.50
Lowest repurchase price per unit (Rs.)	525.25	552.25	584.00

* Values calculated till December

* for the period from December 26, 2002 to June 30, 2003

Net Asset at June 30

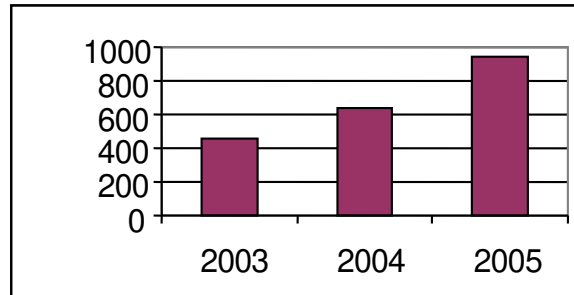


Fig # 6

Net Income

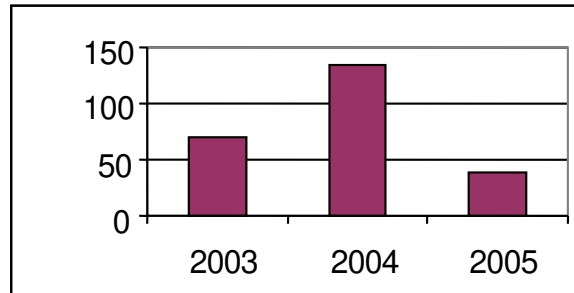


Fig # 7

HIGHEST OFFER PRICE / LOWEST REDEMPTION PRICE

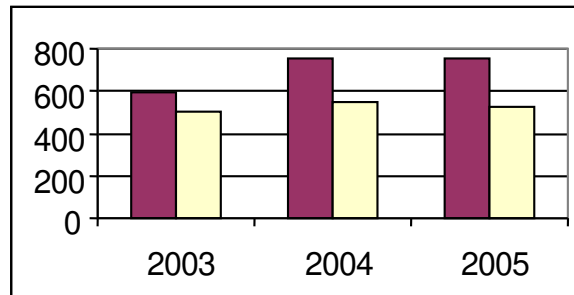


Fig # 8

4.2) PERFORMANCE TABLE / KEY FINANCIAL DATA ARIF HABIB

4.2.1) PAKISTAN INCOME FUND

Year ended June 30	2005	2004	2003
Net assets (Rs '000)	3,706,562	3,400,528	1,499,901
Net income (Rs '000)	315,810	284,423	154,299
Net assets value per unit (Rs)	54.85	54.53	56.73
Earnings per unit (Rs)	4.67	4.56	5.84
Dividend distribution (%)**	9.60	9.00	12.00

Highest offer price per unit (Rs)	55.60	55.28	57.51
Lowest offer price per unit (Rs)	60.62	51.47	52.57
Highest repurchase Price per unit (Rs)	54.85	54.53	56.73
Lowest repurchase price per unit (Rs)	49.94	50.78	50.20

** Stock dividend

* First year of operations from the period 01 March 2002 to 30 June 2002

Net Assets

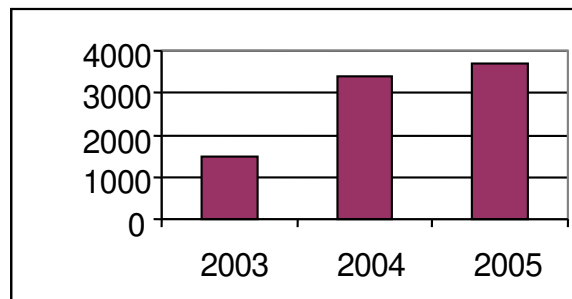


Fig # 9

Net Income

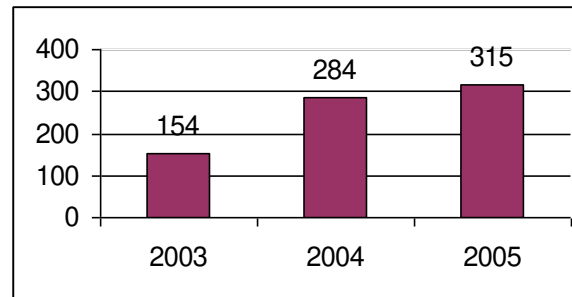


Fig # 10

HIGHEST OFFER PRICE / LOWEST REDEMPTION PRICE

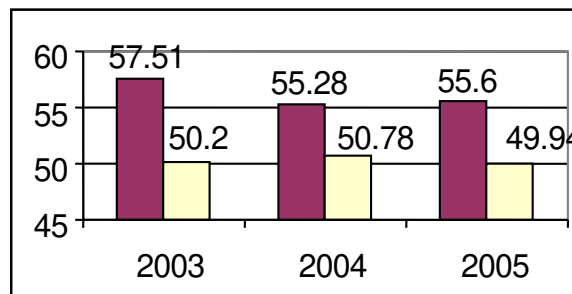


Fig # 11

4.2.2) PAKISTAN STOCK MARKET FUND

Year ended June 30	2005	2004	2003
Net assets (Rs. '000)	2,712,985	1,051,643	783,991
Net income (Rs. '000)	1,171,637	382,103	199,155
Net asset value per unit (Rs.)	115.10	111.99	89.02
Earnings per unit (Rs.)	49.7	40.69	22.61
Dividend distribution (%)**	70***	60**	40**
Highest offer price per unit (Rs.)	148.71	118.59	92.85
Lowest offer price per unit (Rs.)	83.28	71.81	50.58
Highest repurchase price per unit (Rs.)	144.99	115.63	90.53
Lowest repurchase price per unit (Rs.)	81.20	70.01	48.30

** Stock dividend

* First year of operations from the period 01 March 2002 to 30 June 2002

Net Asset

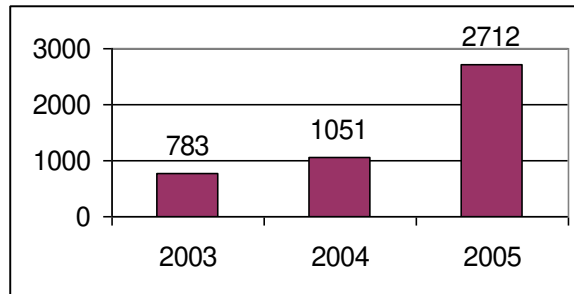


Fig # 12

Net Income

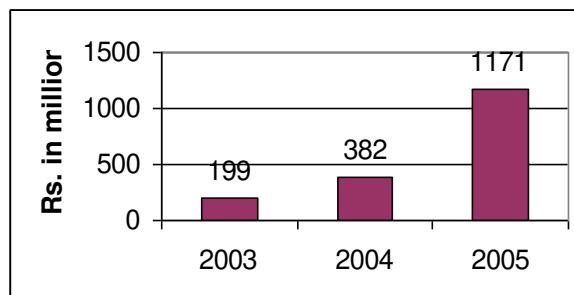


Fig # 13

HIGHEST OFFER PRICE / LOWEST REDEMPTION PRICE

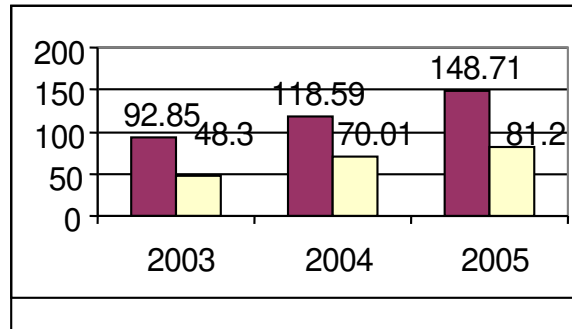


Fig # 14

4.3) RETURNS CALCULATED FROM OPEN-END MUTUAL FUNDS

(Calculation as average annualized return)

- $NAV = \frac{\text{Total Assets} - \text{Liabilities}}{\text{No. of units outstanding}}$
- $NAV \text{ Appreciation} = NAV \text{ at present less Face value}$
- $\text{Total Return} = NAV \text{ Appreciation} + \text{All dividend payouts in rupee terms}$
- $\text{Total Return in \%} = \frac{\text{Total Return}}{\text{Face Value}} \times 100$
- $\text{Total No. of days} = \text{Date of NAV at present} - \text{Launch Date}$
- $\text{Average Annualized Return} = \frac{\text{Total return \%}}{\text{Total No of days}} \times 365$

A) ABAMCO

4.3.1) UNIT TRUST OF PAKISTAN (UTP)

Launch			27 th Oct, 1997
Initial Face Value			Rs. 5000
NAV as at 30th Dec, 2005			Rs. 8,942.37
NAV Appreciation as at			3942.37
Dividend Paid in			
1998*	11.0%	Rs. 550	
1999	13.5%	Rs. 675	
2000	22.5%	Rs. 1125	
2001	12.0%	Rs. 600	
2002	15.0%	Rs. 750	

2003	25.0%	Rs. 1250	
2004	30.0%	Rs. 1500	
2005	20.0%	Rs. 1000	7450
Total Return (Rs.)			11392.37
Total Return (%)			227.84
Total No. of Days			2986
Average Annualized Return			27.85

*(8 months performance), annualized return 16%

COMMENTS :

The above calculation shows the Investment Growth of UTP. From the annual report of UTP it was found that UTP has invested Rs 10,000 on October 1997 since its inception and now the investment growth has increased to Rs 27098. It means that there has been increase of 170 % since 1997; this shows UTP has made investment in good shares. But in the last couple of years it has not increased with the same rate.

On interview with one of the broker, he said that the UTP management team uses analytical disciplines such as, top-down fundamental research, quantitative screens, and macro indicators. In particular, the team looks for sectors and companies that are deemed likely to benefit from the predicted macro trends. Diversification is achieved via a mix of sectors and investors are offered an optimized risk/return profile.

4.3.2)UTP ISLAMIC FUND

Launch			27 th Dec, 2002
Initial Face Value			Rs. 500
NAV as at 30th Dec, 2005			753.93
NAV Appreciation as at			253.93
Dividend Paid in			
2003*	8.00%	Rs. 40.00	
2004	17.00%	Rs. 85.00	
2005	10.00%	Rs. 50.00	
Total (Rs.)			175
Total Return (Rs.)			482.93
Total Return (%)			96.58
Total No. of Days			1100
Average Annualized			32.047

Return			
---------------	--	--	--

Table # 3

* (6months performance), annualized return 16%

COMMENTS :

The above calculation shows giving return 32.047 per year as compare to UTP the UTP ISF is giving good return but in 2005 due to market crash the dividend pay ot ratio decline by 7% as given by in 2004 17% now in future the fund will grow with high return.

4.3.3) UTP INCOME FUND

Launch			August 26, 2002
Initial Face Value			500
NAV as at 30th Dec, 2005			538.51
NAV Appreciation as at			38.51
Dividend Paid in			
2003	9.50%	Rs. 47.50	
2004	6.20%	Rs. 31.00	
2005	10.25%	Rs. 51.25	
Total (Rs.)			129.75
Total Return			168.26
Total Return (%)			33.65
Total No. of Days			1223
Average Annualized Return			10.04

Table # 4

COMMENTS :

The above calculations shows the Investment Growth of UTP IF. From the annual report of UTP IF it was found that UTP IF is growing very rapidly and income fund grow chances with Govt securities and the return on these securities are low so the fund growth are very low.

B) ARIF HABIB INVESTMENT

4.3.4) PAKISTAN STOCK MARKET FUND (PSMF)

Launch			1 st March 2002
Initial Face Value (Rs.)			50
NAV as at 30th Dec, 2005 (Rs.)			116.89
NAV Appreciation as at			66.89
Dividend Paid in			
2003	40%**	Rs. 20	
2004	60%**	Rs. 30	
2005	70%***	Rs. 35	85
Total Return			151.89
Total Return (%)			303.78
Total No. of Days			1036
Average Annualized Return			107.02

Table # 5

COMMENTS :

The calculation of stock market fund is showing return are high and this category fund are equity based and it is aggressive so totally (80 %) based on stock what ever they get return from stock then profit distribute in PSM.

4.3.5) PAKISTAN INCOME FUND (PIF)

Launch			1 st March 2002
Initial Face Value			Rs. 50
NAV as at 30th Dec, 2005			52.21
NAV Appreciation as at			2.21
Dividend Paid in			
2003	12%	Rs.6	
2004	9%	Rs.4.5	
2005	9.60%	Rs.4.8	15.3
Total Return			17.51
Total Return (%)			35.02
Total No. of Days			1036
Average Annualized Return			12.33

Table # 6

COMMENTS :

The return on income fund are high as compare to inflation and bank return. The average annualized return is 12.33 and dividend pay out ratio increasing as NAV of the funds increasing.

4.4) FORECASTING FUNDS RETURN FOR 2006

4.4.1) ABAMCO LTD

Funds	Year	Actual				Estimate				
		Total Return %	Average Annualized Return %	High O.P *	Lowest R.P**	Year	Total Return %	Dividend %	High O.P	Lowest R.P
UTP	2005	227.84	27.85	9,347	6,840	2006	260.45	34	10500	7500
UTP ISF	2005	96.58	32.047	754.25	525.25	2006	125.56	25	925	740
UTP IF	2005	33.65	10.04	568.75	509.50	2006	42.4	11.25	574	518

Table # 7

O.P* Offer Price

R.P** Redemption Price

COMMENTS :

The overall all fund will give good return if market moves towards bullish and the high dividend expected in UTP (34%) in 2006 because in past performance of UTP is when ever market condition is good UTP gives good return.

4.4.2) ARIF HABIB INVESTMENT

Funds	Year	Actual				Estimate				
		Total Return %	Average Annualized Return %	High O.P*	Lowest R.P**	Year	Total Return %	Dividend %	High O.P	Lowest R.P
PIF	2005	17.51	12.33	55.60	54.85	2006	18.5	10.5	62	53.5
PSMF	2005	151.89	107.02	148.71	81.20	2006	175.65	65	149	75.40

Table # 8

O.P* Offer Price

R.P** Redemption Price

COMMENTS :

The overall all fund will give good return if market moves towards bullish and the high dividend expected in PSM (65%) in 2006 because in past performance does not matter in the fund and this year the overall economic conditions are good.

4.5) PERFORMANCE RESULTS JUNE 2003 – JUNE 2005

GROWTH – PLUS INCOME BALANCED COMPOSITE

Year	Funds	Total Return	Benchmark Return	No. of Portfolio	Earning per Unit (EPU)	Total Assets End of Period (Rs in million)
ABAMCO						
2005	UTP	227.85		3	854	Rs. 3,444 million
	UTP ISF	96.58	227.58	2	26	
	UTP IF	33.65		5	53	
ARIF HABIB						
2005	PSM	151.89		3	49.7	2,712,985000
	PIF	17.51	227.58	5	4.67	3,706,552000

Table # 9

Comments:

We select the bench mark UTP which is giving high average annualized return is 227.58% as compare to others and after the taken out bench mark return now this year expected the ABAMCO will give high return on all funds as compare to Arif Habib because the fund manage by fund manager the market position are well and then depend on how the fund manager and analyst working efficiently according to current market situation.

4.6) OVERVIEW OPEN END MUTUAL FUNDS INDUSTRY

YTD Performance with Industry Average

Fund	Asset Manager	Friday 30 th Dec, 2005	Thursday 30 th June, 2005	Annualized Return	Industry Average
Islamic Funds					
UTP-ISF*	ABAMCO Ltd.	753.93	581.60	59.10%	57.07%
Meezan ISF*	Al Meezan Investments	75.51	58.71	57.07%	57.07%
Income Fund					
UTP-IF*	ABAMCO Ltd.	538.51	509.91	11.19%	8.96 %
PIF*	Arif Habib Investments	52.21	50.05	8.61%	8.96 %
UMMF*	United Asset Management	105.08	100.63	8.83%	8.96 %
DMMF*	Dawood Capital Management	105.29	100.01	10.52%	8.96 %

MSF	Arif Habib Investments	46.16	44.69	6.56%	8.96 %
AIF*	Atlas Asset Management	526.11	500.31	10.29%	8.96 %
Equity					
UTP-AAAF	ABAMCO Ltd.	87.36	50.34	146.68%	57.34 %
PSM*	Arif Habib Investments	116.89	90.10	59.30%	57.34 %
NIT*	National Investment Trust	52.02	38.12	72.70%	57.34 %
Crosby Dragon**	Crosby Asset Management	125.05	100.47	48.80%	57.34 %
ASMF*	Atlas Asset Management	631.12	500.14	52.23%	57.34 %
Pakistan Capital Market Fund+	Arif Habib Investments	16.66	13.08	53.68%	57.34 %
Balanced					
UTP*	ABAMCO Ltd.	8,942.37	7035.00	54.08%	33.42 %
Faysal Growth Funds*	Faysal Asset Management	126.58	100.40	52.01%	33.42 %
Alfalah GHP Value Fund^^^	Alfalah GHP Inv. Mang.	51.28	50.00	14.83%	33.42 %
Fund of Funds					
UTP-Fund of Funds^	ABAMCO Ltd.	55.98	50.00	72.76%	-
Hybrid Fund					
Faysal Income & Growth Fund^^	Faysal Asset Management	102.45	100.00	11.04%	-
KSE 100		9,514.83	7,450.12	56.39%	-

* Ex-dividend/bonus Price

+ Converted from close-end to open-end fund

** Crosby Funds prices are on weekly basis

+ Current NAV is Div. adjusted

^ Fund launched from 31-Oct,

2005

^^ Fund launched from 10-Oct, 2005

^^^ Fund launched from 28-Oct, 2005

Table # 10

COMMENTS :

Islamic Fund:

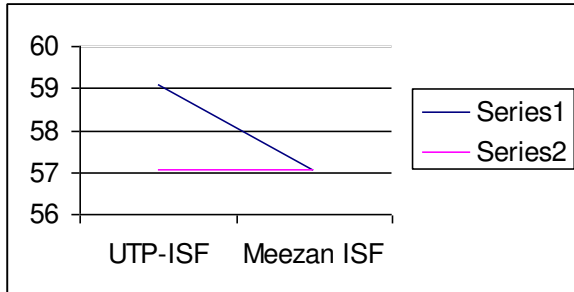


Fig # 15

In the Islamic fund category the returns are low as compare to average industry return but here the fund of ABAMCO is operating better than Meezan and in the future ABAMCO may give good return and well perform.

Income:

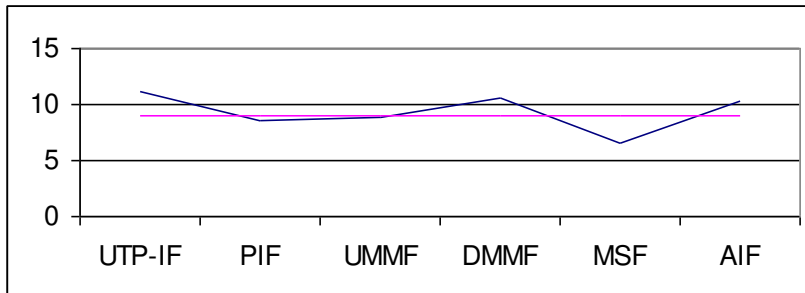


Fig # 16

In the income fund category IF, DMMF and AIF performing better as compare to average industry return but the annualized return of ABAMCO IF is high as compare to others funds and if compare with bank return this is also giving good return because bank return is 8.75% and ABAMCO IF return 11.19%.

Equity:

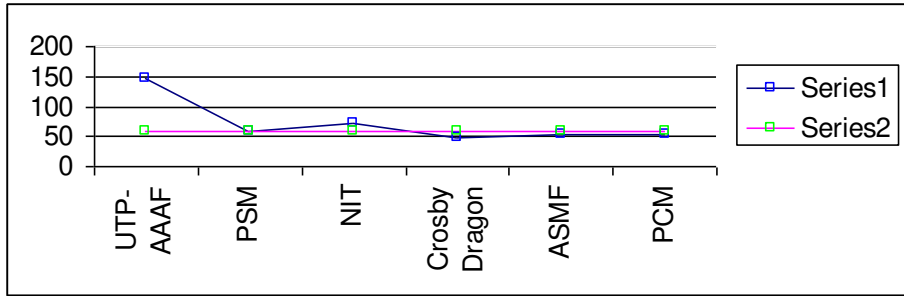


Fig # 17

In the equity fund category the ABAMCO UTP AAA performing the high return as compare to average industry return and others funds return is 146.68% and this is totally stock base so this is aggressive and highly risky fund if we see the PSM in the second highest fund is giving the good return.

Balanced:

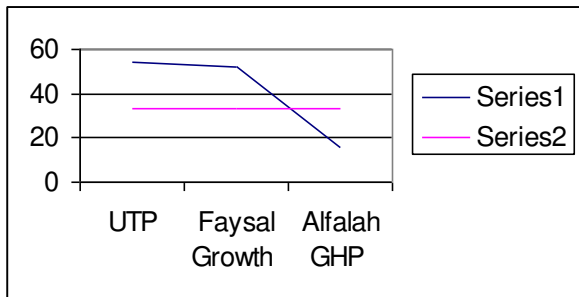


Fig # 18

In the balanced fund category the ABAMCO UTP performing well as compare to average industry return and faysal balance growth fund also giving good return but in future the high return will be pay from UTP rather then faysal balance growth fund.

Fund Of Funds:

This is first fund in Pakistan in fund of fund category and the return is good and the risk are low.

Hybrid Fund:

This fund Faysal income and growth fund included category income fund and equity baed so return is good.

4.7) OTHERS SECTORS RETURNS COMPARISION WITH OPEN END MUTUAL FUND

Ho: There is no opportunity for small investor in making investment in Mutual Fund.

HA: There is a great opportunity for small investor making investment in Mutual fund.

Opportunities	Yield Range/Avg	Liquidity	Risk Level
Govt. Securities	6% - 10% *	Low	Minimum
Bank Deposits	2.15 % - 5% ****	Moderate	Low
NSS	13 % ***	Low	Minimum
TFC's, PTC's	8% **	Low	Moderate
COT Market	9% - 18%	Low	Medium High
Listed Securities	5% - 25%	High	High
Mutual Funds	17 %	Medium High	Medium High
*From 3-year Tenor to 20-Year Tenor ** From 3-year to 7-year Tenor ***Weighted Avg for maturities ranging from 3 Years to 10 Years ****For 6-months to Over 5-years Maturity			

Source: Pakistan Economist Magazine

Table # 11

COMMENTS :

The abovementioned table clearly identifies Mutual Funds Sector as most well placed providing maximum return along with Minimum Risk. Furthermore, it would help us to know that investments work as a bridge between savings and growth. In Pakistan, National Saving Scheme (NSS) and Bank Deposits have played this role for decades. In developed economies Mutual Funds Sectors are more than 100% of the Banking Sector deposits whereas in our economy they only constitute 45 of total banking sector deposits. NSS and bank deposits rates have been recording continuous decline and Pakistani stock markets are performing well on the back of strong economic performance. This provide ample for motivation for investment in stock markets.

From the above table it is also clear that there is high risk and return involved in making investment in Listed Securities. Therefore it is very difficult for an ordinary investor to make investment in listed securities and bear high risk (cost).

For an individual investor it is difficult to obtain the requisite expertise and information to select the appropriate mix of stocks and time, the decisions accordingly to optimize returns and that's where the rationale for investing in Mutual Funds strengths. Therefore,

the best option for the small investors is to invest in equities market through mutual funds.

4.8) PLANNING AND GUIDANCE

4.8.1) MAKING THE MOST OF TIME

When it comes to investing for your future you have an incredible advantage: time.

Put time on your side:

It is really quite simple. The sooner you start saving for your goals, the more time your money has to work for you. Time has a powerful ally called compounding—or the earning of money on previous earnings which may help your money grow faster. In fact, by investing early, you have the potential to invest less money and yet earn considerably more than someone who waits to invest, as illustrated in the chart below.

Starting early can make a big difference:

INVESTOR A who started at age 25, contributed one-third the amount over one-third the time (Rs. 250,000 annually for just 10 years), but still ended up with Rs. 350,000 more than **INVESTOR B**, who started 10 years later and put in three times as much.

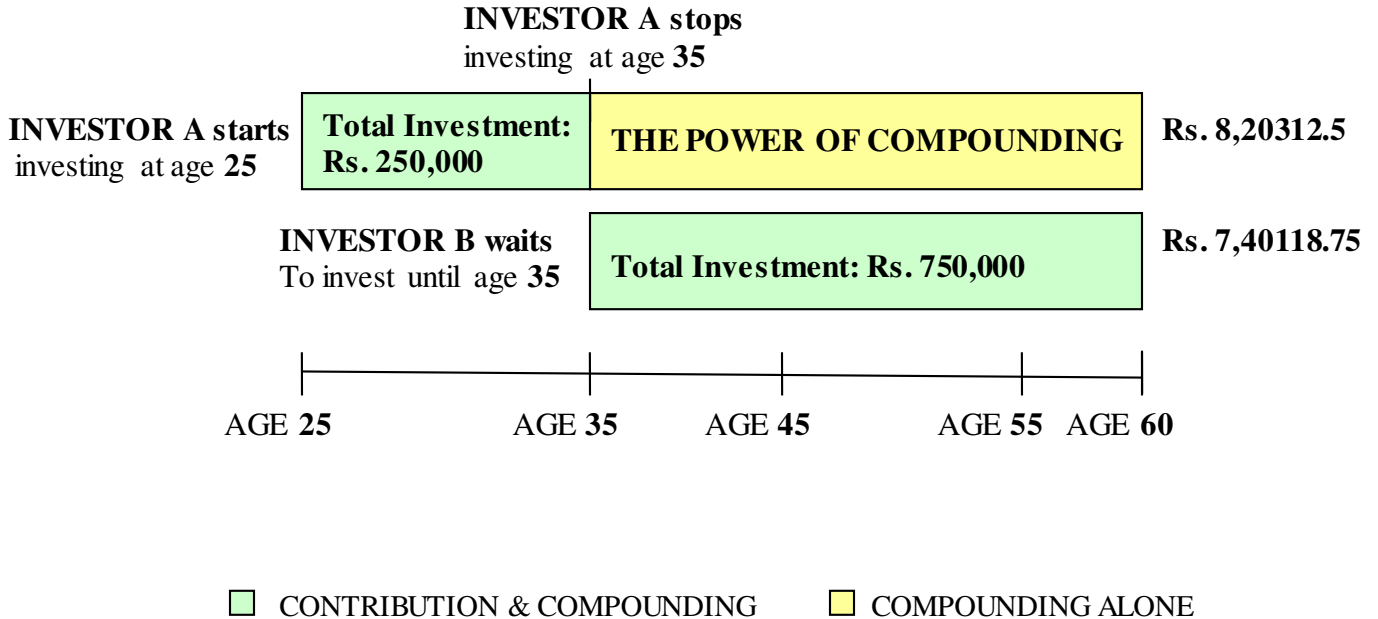


Fig # 19

This is **hypothetical example** assume an 15% average annual return and include the reinvestment of income dividends and capital gains distributions. The ending values do not reflect taxes, fees, or inflation. Periodic investment do not ensure a profit or protect against loss in declining market.

Take a long-term view:

Investing over time also gives you the added advantage of being able to take a long-term perspective. Longer time horizons allow investors to ride out the inevitable ups and downs of the market. That is because, historically, one of the best risk reducers has been time.

In general, the longer of your time horizon, the more volatility you can tolerate, the more aggressively you can invest, and the higher the rate of return you can reasonably expect to achieve. All of this adds up to make your financial goals that much more attainable.

Give up a little something today for a better tomorrow:

Of course, in order to start saving for tomorrow, you may have to give a little something today, having an understanding of how even small changes can add up over time may make this easier. When you take advantage of compounded growth investing even 25 a day (your daily cup of coffee) can make in the stock market, the cost of that daily cup could potentially grow to nearly 200000 forty years from now.

4.8.2) DEFINING YOUR GOALS

By having a clear understanding of what you want to achieve, how long you have to achieve it, and how much you will need, you are more likely to succeed:

What does your future hold?

Let's face it, changing habits can be difficult. In order to make changes today that will pave the way for a brighter future, you need to clearly define what it is you want to achieve. In other words, what are your financial goals? Are you saving for:

- A down payment on a new house?
- Your child's education?
- An addition to your home?
- An addition your family?
- Retirement

These are examples of financial goals. When planning for your future, you will want to write them down, prioritize them, and determine how much time you have and much money you will need to reach them.

How much will it cost?

Most long-term financial goals come with pretty big price tags. Here are some ballpark figures to consider:

COSTIN 2005

COSTIN 2030

172,460,00

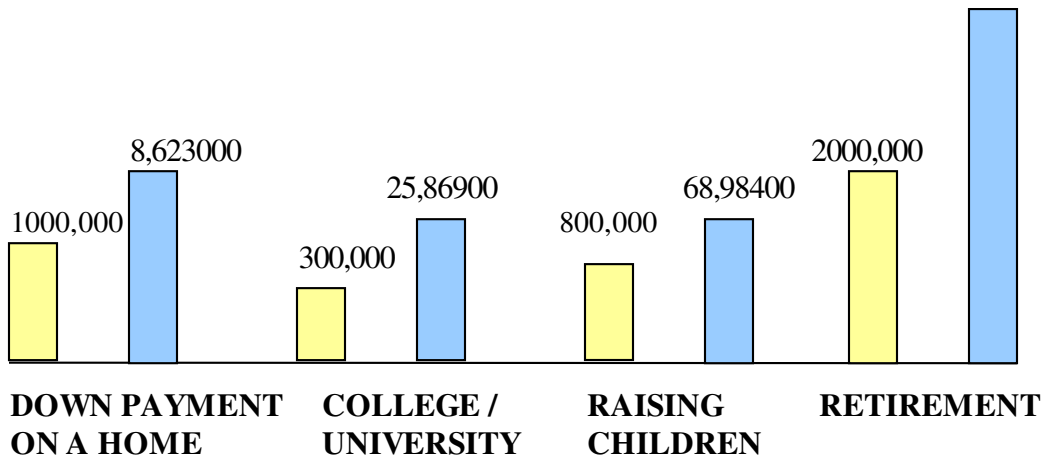


Fig # 20

This a **hypothetical example** of the impact of a 9% annual inflation rate on the named expenses over the course of 25 years.

The good news is, you probably don't have to pay for these things today. The bad news? These costs are only going to increase over time, thanks to inflation rate of 10.2%, you will need twice as much money in 25 years to equal the buying power you have today.

How will you get there?

Facing the reality of what your dreams for the future may cost could leave you wondering how will you ever get there. That's where investing as opposed to just saving comes in. investment strategies that seek long term growth to beat inflation may make all the difference..

4.8.3) GETTING THINGS IN ORDER

If you don't know how much of your money in coming in and gong out, how can you plan for what's left over? And what's left over is the key to reaching your goals.

Create your budget:

It's time to put pen to paper to create your budget. Simply subtract your expenses from your income to calculate your personal "bottom line". This will reveal whether you are living within your means, with some funds left over to save and invest or spending more than you make.

Adjust your spending:

The more you can add to your bottom line, the more you will be able to set aside for the future. So, take a closer look at how you are spending your money. Are there places you could cut back? Remember, every little bit adds up (see chart below for ideas on how to adjust your spending).

To help you tighten the reins, consider making automatic contributions from your bank account investment account, which you can establish on a monthly basis.

Small changes can yield big savings	Monthly Savings	Yearly Savings
Bring lunch to work	500	6000
Eat at one less restaurant a month	1000	12000
Buy one less coffee a day	250	3000
Exercise at home instead of the gym	<u>300</u>	<u>3600</u>
Total Savings	<u>2,050</u>	<u>24,600</u>

Establish an emergency fund:

As a rule of thumb, everyone should consider having enough cash set aside to cover at least 3-6 months' worth of expenses. That way, if you lose your job, or if an unexpected expenses crops up, you may be prepared to handle it without having to rely credit card or loans.

Reduce debt:

If you are relying on credit cards to stay afloat, you should consider taking immediate action to reduce your debt. Think of it as a form of investing. For example, if you paid off Rs.10,000 on a credit card that has a 12% interest rate, that's like earning 12% a year on a Rs.10,000 investment, or Rs. 1,200 for each year you carry the balance. Not bad.

Protect your income and dependents:

You are probably aware of the need for a number of different types of insurance health, auto, home, etc. but once you reach a certain point in life when you're relying on your income to support yourself and a family its time to make sure you have enough life and disability insurance.

4.8.4) INVESTING EFFICIENTLY

Now that you understand how you can organize your budget, your spending, and your debt, it's time to make the most of your freed-up money.

Start with tax-advantaged vehicles:

As you choose from the different investment vehicles available to you, you may want to consider the following Tax Rebate example:

Formula of Tax rebate

Taxable Income	1,000,000.00
Tax on first Rs. 700,000.00	119,000.00
Tax on remaining Rs. 300,000.00	90,000.00
Total Tax Liabilities	209,000.00

INVESTMENT IN OPEN END FUND 150,000.00

Tax Rebate = Tax Liabilities x Investments / Total Taxable Income

$$\text{Tax Rebate} = \frac{209,000 \times 150,000}{1,000,000} = 31,350$$

$$\text{Tax Rebate} = 31,350.00$$

$$\begin{aligned} \text{Net Tax Liability} &= \text{Total Tax Liability} - \text{Tax Rebate} \\ &= 209,000 - 31,350 \end{aligned}$$

$$\text{Net Tax Liability} = \text{Rs. } \underline{\underline{177,650.00}}$$

Note: Tax Rebate is applicable on the first 150,000.00 only.

That's because, in the same way that inflation can erode your savings, taxes can take a real bite out of the growth of your investments.

You are probably already familiar with the percentage of your income that goes toward taxes. But did you know that any earnings you on an investment are often tax as well? That's why there's such a significant benefit to utilizing tax-advantaged investments, as illustrated in the chart below.

Invest for retirement now:

Even if it feels far away, retirement should be a top investment priority for everyone. After all, for most of us, our income in retirement will need to come primarily from our own savings. Fortunately, there are numerous tax-advantaged vehicles to choose.

Invest for a child's college education:

If one of your goals is college tuition, there's another kind of tax-advantaged investment that may be appropriate for you. A College Savings Plan may help your investments keep up with the rising cost of college by allowing you to save on tax-deferred basis.

These plans offer a unique combination of features and benefits, including:

- Federal tax advantage
- Low minimum investment requirements
- High contribution maximums
- No income limitations or beneficiary age requirements
- Beneficiary designation can be changed

Utilize after tax investment:

Once you have maximized investments in tax-advantaged vehicles, you can still make the most of your remaining assets and monthly savings within accounts that do not offer specific tax advantages, such as brokerage accounts. A brokerage account offers you access to a full range of investments, such as stocks and options, mutual funds, bonds and other fixed income securities.

One benefit of taxable accounts is that they provide increased liquidity, meaning that your money is generally more accessible than in some of the tax-advantaged vehicles. And they provide the opportunity for substantial additional accumulation since there are no limits to the amount you can invest.

4.8.5) BUILDING YOUR PORTFOLIO

When you are ready to build your portfolio, determining what kind of an investors you are can help you select investments and stay on track.

Start with the four asset classes:

As you put together your investment strategy, it's important to spread your assets out among a range of investments to minimize your exposure to risk in any one industry or asset class. Therefore, your portfolio will be made up of different percentages of the following four asset class:

- Fixed Income Funds
- Equity Funds
- Balanced Fund
- Fund of funds

Determine your asset allocation strategy:

So what is the right investment mix? Well, there's actually no "right" answer, because there's no one-size-fits-all breakdown. Take a look at chart above for help in identifying where you may fall on the "investor spectrum" from conservative to aggressive.

Once you have better idea of your "investor profile," it will be easier to consider and evaluate different investment strategies on the risk vs. return continuum. See the sample "model" portfolios below. They represent asset allocation strategies for six different types of hypothetical investors.

Consider mutual funds:

Mutual Funds make it possible for you to invest in hundreds of securities with one purchase, so they're a great way to achieve built in diversification conveniently and affordably, especially when you select an all-in-one mutual fund solution. This type of mutual fund is typically based on a preset asset mix or retirement date, so you can select

the mix or the retirement date that fits your profile. Plus, all mutual funds are run by a professional money manager, making them an ideal choice for investor who don't have the time or depth of knowledge to make their own individual selections.

Keep your savings on track:

Once you have chosen your investments, it's a good idea to commit to a regular contribution schedule to keep your savings on track. One way to accomplish this is to set up automated electronic transfers.

Monitor your plan – and keep investing:

Finally, reinvest your strategy from time to time (at least annually or when you have a life-changing event) to make sure it stays on track. That way, you can help ensure that all the hard work that's gone into your financial plan continues to pay off.

5) CONCLUSION AND RECOMMENDATION

5.1) CONCLUSION

The research contains all the evaluating open end mutual funds style and performance in respect of investors. After gone through the analysis and expert's opinion we can say that investment in open-end mutual fund is the best option available for all investors.

After analyzing the financial and market performance of different sectors we can say that investment in ABAMCO and Arif Habib is the best option to invest there because they are leading as a giant in the markets as compare to others asset management companies. As a spectator I would say that these two Mutual Fund companies are best and will grow rapidly. However, if any one Mutual fund company is selected then ABAMCO is better option available for investor because, it is giving high return on all funds as compare to others funds especially UTP paying each year stock or cash dividend to investor as compare to others but Arif Habib is leading only a in PSM is giving good return and in 2004 Arif Habib was best performance mutual fund in the year 2004. but in 2005 as crashed market so all funds did not give good return but in UTP IF is announced 10.5% highest dividend in income fund category. .

The fund managers are very expert in managing the portfolio of company, they have very high expertise in selecting a mix portfolio which gives them high return. The fund performance not only depend on market but it also depend on how the fund manager are managing a funds efficiently?

Nevertheless, focusing too much on a mutual fund's past performance is also not advisable. While it's easy to get swept up in the latest investment trend, relying solely on past results rarely leads to success. Instead, ask yourself, "Is this is good investment right now?" There may be situations where bond funds may be outperforming the stock returns.

Following are some advantages to investors that I have found from my research study:

- Services of Investment Professionals
- Ability to Diversify
- Ability to invest very small amounts
- Ability to multiply savings
- Ability to diversify price volatility risk
- Ability to match investment with risk taking ability
- Protection through the Trustee

5.3) RECOMMENDATION

1. Each and every Mutual fund company should hire highly specialized professional fund managers to restore investor confidence and improve investment climate. A whole range of skills are required by fund managers whether it is evaluation of short-term and long term investment, risk management, market fundamentals or the exercise of discipline in speculative investments.
2. For further development of the mutual fund industry in the country, fund managers should develop specialized products aimed at niche markets to cater to the specific needs of different types of investors such as ATM card facility on line trading and web site should be professional like to be this is the asset management company
3. The promotion of brand name of company and as well as mutual funds to develop a confidence level of investors and give financial highlights in magazine or news papers for a specific fund to create awareness.
4. There is a strong need to widen and deepen the Pakistan mutual fund industry by making it more accessible to general public through educating them about the benefits and better returns as compared to return on bank deposits.
5. Prudent economic policies of the government, positive steps by the Central Board of Revenue, State Bank of Pakistan and the pro-active role of SECP will contribute to create an investment conducive- environment in the economy.
6. Investor must determine what other funds are available in the same mutual fund family.
7. Investor must determine diversification of their fund. Because it reduces risk, diversification is one of the major benefits of mutual fund investing.

8. How the fund manager treats investors. Following are the some questions that investor must evaluate it. Is the literature clear and comprehensible? How are you treated when you phone with questions or to make a change in your account information? Are the phone representatives knowledgeable, courteous and available without a long wait on hold? Do you get your questions answered the first time, or does it take several tries to get something right? The more comfortable you are with the organization, the more likely you'll be to stick with your investment even when it gets uncomfortable.

