



SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN  
SPECIALIZED COMPANIES DIVISION

Before Commissioner (SCD)

In the matter of Show Cause Notice issued to Alfalah GHP Investment Management Limited under Section 282J (1) read with Section 282M (1) of the Companies Ordinance, 1984

*Date of hearing:*

*March 16, 2017*

*Representing Alfalah GHP  
Investment Management Limited:*

- i. Ms. Maheen Rahman, Chief Executive Officer*
- ii. Mr. Noman A. Soomro, Chief Operating Officer*

*Assisting the Commissioner (SCD)*

- i. Mr. Imran Inayat Butt (Executive Director)*
- ii. Mr. Muhammad Jahangir (Joint Director)*

ORDER

This Order shall dispose of the proceedings initiated against Alfalah GHP Investment Management Limited (the "Company" or "AGIML" ) through show cause notice (the "SCN") bearing No. SCD/AD-AMCW/ALFALAH/39/2017 dated March 7, 2017 under section 282J (1) read with section 282M (1) of the Companies Ordinance, 1984 (the "Ordinance").

2. The brief facts of the case are that the Company is managing Alfalah GHP Sovereign Fund ("AGHPSF"). Clause 2.1.1 of the Offering Document of AGHPSF, stipulates that the exposure of the fund in Government securities shall remain in the range of 70%-100% of net assets of the fund, based on quarterly average to be calculated on daily basis.

3. Central Depository Company Ltd. ("CDC"), Trustee of AGHPSF, vide its letter dated February 15, 2017 reported non-compliance of AGHPSF with the said requirements since November 24, 2016. Further, Supervision and Enforcement Department ("S&ED") of the Securities and Exchange Commission of Pakistan (the "Commission"), on examination of the information provided by the Company, also observed that the exposure of AGHPSF in Government securities remained below the minimum exposure limit of 70% from November 26, 2016 to February 15, 2017.

4. Consequently, SCN dated March 7, 2017 was issued whereby the Company was called upon to show cause in writing by March 14, 2017 as to why penal action may not be taken for the aforesaid contraventions and an opportunity of hearing was also granted on March 16, 2017.



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5. In response to the said SCN, the Company submitted written reply. The main arguments put forth by the Company in its written reply are as under:

- i. The forward interest rate environment had altered and with interest rates at a 40 year low, the potential for an upward revision in interest rates and hence the possibility of the AGHPSF incurring loss due to government securities holding on a mark to market basis had increased. The Company further claims that it recognized that being forced to remain exposed to short-term Government securities and generate lower return, would not be in the interest of the investors and may pose a redemption risk to the fund.
- ii. AGHPSF experienced around 32% redemption by the close of October 2016 from its peak in August 2016. Resultantly, the fund size reduced continuously from Rs.5.77 billion on August 25, 2016 to Rs. 2.37 billion by December 31, 2016. The fund had a further erosion in its net assets to Rs 1.77 billion in February 2017 representing a decline of 54% in four months.
- iii. The Company reiterates that the fund lost Rs 1.5 billion or 41% of size in November-December 2016 and due to continuous reduction in fund size, the redemptions were met through liquidation of Government securities. TDRs could not be encashed prematurely without penalty by the issuing bank since it would have caused additional losses to the fund. As a result, the Company was unable to raise allocation in Government securities to be compliant on the quarterly average basis due to significant reduction in size of the fund. In the given scenario, AGIML acted proactively in raising its concerns with the Commission.
- iv. The significant redemption pressure became the main reason that reduced the funds exposure in Government securities.
- v. The Company always aimed to act in the best interest of unit holders and it is the responsibility of the Company to highlight matters to the Commission that could impact unitholder's interest in any way whatsoever. Due to this primary responsibility to act in unitholders benefit, the Company highlighted this issue proactively to the Commission well in advance of the actual non-compliance and continued to liaise with the Commission on this issue.

6. A hearing in the matter was also held on March 16, 2017, which was attended by Ms. Maheen Rahman, Chief Executive Officer (CEO) and Mr. Noman A. Soomro, Chief Operating Officer (collectively "the Respondents"). During the hearing, the Respondents made submissions mainly reiterating the earlier written stance. It was further submitted by the CEO that the Company is now trying to dispose of all other assets to raise the Government securities exposure to ensure



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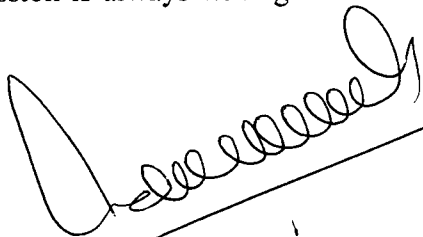
compliance and current exposure of AGHPSF in Government securities is around 90% of the net assets of the fund.

7. After examining the facts of the case, relevant regulatory requirements and the arguments put forth by the Respondents in written reply as well as during the course of hearing, I observed that the Company informed the Commission about the issue and its inability to maintain requisite exposure in Government securities well before the actual non-compliance. Further, it is also encouraging to note that the Company is moving in the direction of compliance. The said acts of the Company showed seriousness of its efforts to avoid the regulatory non-compliance.

8. In view of the above and considering the fact that this is the first instance of non-compliance by the Company wherein SCN has been served, I am not imposing any penalty.

9. Moreover, I consider it necessary to mention that if any regulated entity, despite its best efforts, faces any untoward situation then the issue should be thoroughly deliberated upon at the industry level to avoid the occurrence of such events in future. In order to address this issue properly and in the best interest of the investors, I hereby advise the Company to take up the matter with Mutual Funds Association of Pakistan ("MUFAP"). Further, MUFAP is directed to analyze the whole matter and come up with possible solutions.

10. Keeping in mind the regulatory objectives of not only ensuring the regulatory compliance but also protecting the interest of the investors, the Commission is always willing to extend its support and guidance in this regard.



**(Zafar Abdullah)**  
Commissioner (SCD)

**Announced: April 6, 2017 at Islamabad.**