

## FUND SELECT

An Investment Guide to Mutual Funds

### Highlights

#### Market Roundup

Throughout July 2007, significant volatility was witnessed in money market with overnight rates hovering in the band of 0.50-9.50%. Average 6month KIBOR in July CY07 stood at 9.52-10.52% (bid-offer). Moreover, the benchmark KSE 100index crossed 14,000 levels during the month. On July 13, 2007, the index closed at an all time high of 14,202.

#### Atlas Stock Market Fund (ASMF)

Since inception, the fund has offered a cumulative return of 74.46%, which means that if PRs.100,000 were invested in November 2004, this amount would have grown to PRs.174,460 on July 31, 2007, an average annual return of 28.25%.

#### United Money Market Fund (UMF)

In July 07, the fund size increased by 7% to PRs.10.53bn. A significant portion of the fund remained invested in short term instruments. During July 2007, the fund offered an annualized return of 8.98%.

*The idea behind this monthly bulletin is to enhance the reader's knowledge about different mutual funds. In our view, this is still a much untapped sector which provides relatively better investment opportunity to investors. Funds are selected randomly, one each from equity and income / money market segment. In our last issue we covered "National Investment Trust (NIT) and HBL- Income Fund." In this issue we present "Atlas Stock Market Fund and United Money Market Fund." Your suggestions to add value to this product are more than welcome."*

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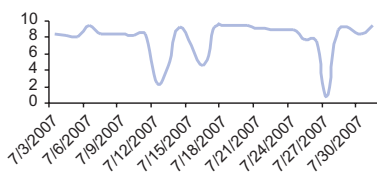
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# IGI

Investment Bank

Chart 1: O/N Rate Jul 2007



Source: IGI Research

Table 1: OMO'S July, 2007

Date	Amount	Rate
July 03, 2007	18000	8.80%
July 05, 2007	25000	8.69%
July 05, 2007	2000	8.75%
July 10, 2007	36500	8.59%
July 14, 2007	40400	8.55%

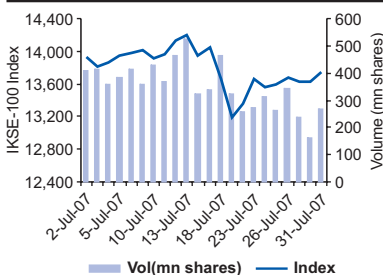
Source: IGI Research

Table 2: Discounting July, 2007

Date	Amount	Rate
July 18, 2007	9,500	9.50%
July 19, 2007	13,546	9.50%
July 20, 2007	11,017	9.50%

Source: IGI Research

Chart 2: KSE -100 Index



Source: IGI Research

## Market Roundup

### Focus on Money Market

Throughout July 2007, significant volatility was witnessed in money market with overnight rates hovering in the band of 0.50-9.50%. Average overnight rate for the month stood around 7.38%. During the month under review, SBP did five OMOs (Open Market Operations) while the market participants approached the SBP's discount window thrice during the month. Average 6month KIBOR in July CY07 stood at 9.52-10.52% (bid-offer) as against 9.47-9.97% in June CY07, showing an increase of 5bps. The major event of the month was the hike in the policy discount rate by 50bps to 10%. As a result of this, cutoff on 6 month T-Bills rates rose from 8.9017% to 9.0987% and 12 month T-Bills rates increased from 9.1597% to 9.3990% showing an increase of 19.7bps and 23.9bps respectively.

### Equity Market Snapshot

In July 2007, the benchmark KSE 100index crossed 14,000 levels. On July 13, 2007, the index closed at an all time high of 14,202. But such an inflated level could not be sustained by the market and massive correction was witnessed during latter part of the month. Overall, the index lost merely 33.59 points during the month to close at 13,739 levels. Average volume in ready counter stood at 348mn shares. Volumes in future counter declined by 11.75%MoM to 63.77mn shares.

Table 3: KSE Review July, 2007

	KSE100 Index	KSE30 Index	Market Cap (PRs)	Avg Turnover Ready (mn)	Avg Turnover Futures (mn)
31-Jul-07	13738.87	16618.27	4028.09	348.91	63.77
29-Jun-07	13,772.46	16993.51	4019.42	349.71	72.26
%ChgMoM	-0.24%	-2.21%	0.22%	-0.23%	-11.75%

Source: IGI Research

### Global Bourses Highlights

During the month under review, mixed trend was observed in global equity markets. Major US and European indexes underwent correction and reported decline in the range of 1-5% on month-on-month basis. Nonetheless, Asian markets demonstrated fairly decent performance. China's Shenghai Composite continued its upward journey gaining 17.02%MoM which was the highest gain among indexes shown in the table below. Thailand and South Korean bourses also portrayed outstanding returns. Most of the Asian markets could not hold on to their July CY07 gains and in the first couple of weeks of the ongoing month have witnessed major downward trend.

Table 4: Global Bourses Highlights

	Index as on		%Change MoM	Trailing PE Multiples (x)	Dividend Yield (%)	Average Volume (mn)
	Jul-31st	Jun-29th				
Dow Jones	13211.99	13408.62	-1.47%	17.37	2.1575	271
NASDAQ	2546.27	2603.23	-2.19%	36.28	0.7234	971
S&P500	1455.27	1503.35	-3.20%	16.78	1.8639	1,352
FTSE100	6360.1	6607.9	-3.75%	13.15	3.7334	1,831
CAC-40	5751.08	6054.93	-5.02%	15.53	2.9153	137
DAX	7584.14	8007.32	-5.28%	13.36	2.5772	143
Hang Seng	23184.94	21772.73	6.49%	17.15	2.5463	2,091
Shenghai Comp	4471.032	3820.7	17.02%	46.56	0.6443	7,964
Sensex30	15550.99	14650.51	6.15%	21.35	1.0732	18
Phillipine Comp	3501.2	3660.86	-4.36%	15.43	2.3204	417
Stock Exch Thai	859.76	776.97	10.66%	16.23	3.4778	3,864
Taiwan Taiex	9287.25	8883.21	4.55%	21.6	3.4389	6,421
KOSPI index	1933.27	1743.6	10.88%	17.87	1.4862	482
Kuala Lampur Comp	1373.71	1354.38	1.43%	16.87	3.3984	221
Karachi	13739.53	13772.46	-0.24%	14.36	3.4862	240

Source: Bloomberg &amp; IGI Research

**Atlas Stock Market Fund (ASMF)**

**Table 5: Rating By PACRA**

AAML	AM3+
AIF	5-Star
ASMF	5-Star
ATFF	5-Star

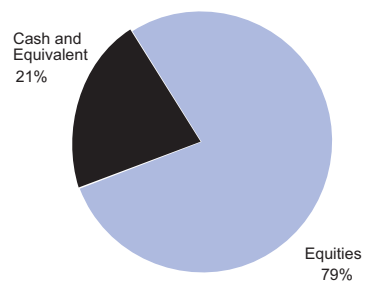
Source: FMR ASMF

**Table 6: Fact Sheet**

Bloomberg Code	ATLSTMF PA
Fund Inception Date	November-04
Type	Open-end Equity Fund
Listing	Lahore Stock Exchange
Trustee	CDC Pakistan Co.
Auditors	Hameed Chaudhri & Co.
Management Fee	3% p/a
Front end load	2% of Net Asset Value (NAV)
Back end load	NIL
Rating	5 Star by PACRA
Minimum Investment	Rs. 5,000/-
Net Assets	Rs 1.50 Billion
NAV (Ex-Bonus)	Rs 591.53
Benchmark	KSE-100 Index

Source: FMR ASMF

**Chart 3: Portfolio Composition**



Source: FMR ASMF

**Company Snapshot**

Presently, Atlas Asset Management Company Limited (AAML) has more than PRs.7bn under management. The Company has a cooperation agreement with ING Institutional and Government Advisory Services, B.V., a global financial institution of Dutch origin. The Atlas Mutual Fund family currently has five mutual funds namely Atlas Income Fund (AIF), Atlas Stock Market Fund (ASMF), Atlas Islamic Fund (AISF), Atlas Pension Fund (APF) and Atlas Fund of Funds (ATFF). The former four funds are open-end while latter is closed-end. The recently launched APF has three Sub-Funds; Equity, Debt and Money Market in which amount contributed are allocated units based on the investor's preference. AAML is the youngest of the four asset management companies in the country to have received the license to act as a Pension Fund Manager and to offer Voluntary Pension Fund.

**Fund Objective**

To achieve a good rate of current income consistent with the prospects of appreciation in the value of amount invested and to provide the investors with liquidity and the facility to join or leave the fund at their convenience.

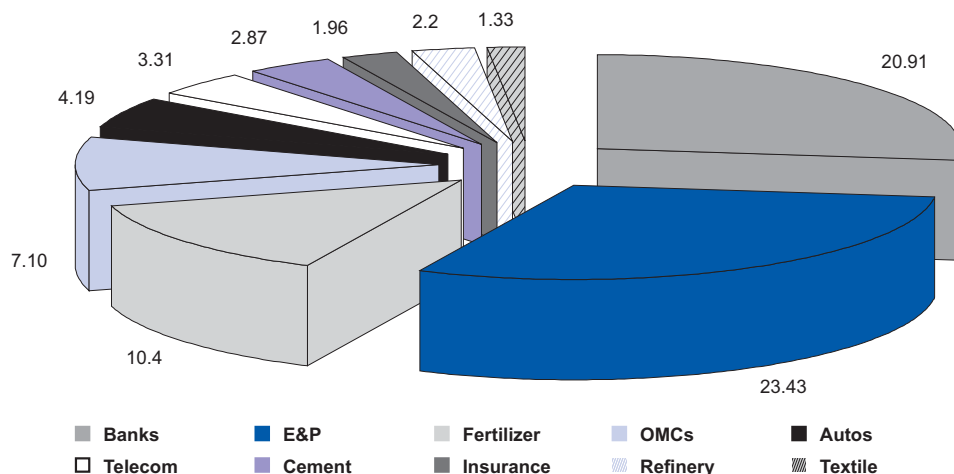
**Investment Methodology**

In collaboration with ING Institutional and Government Advisory Services, B.V., the company has implemented a very well organized investment strategy. According to the strategy, before making an investment decision, the Fund Manager and Investment Committee (IC) do an extensive screening of stocks. In the first stage, stocks are filtered on the basis of Liquidity (Volume) and Market Capitalization. Stocks that successfully qualify the first phase become eligible for the second stage filtration. The second stage has three sub-phases namely Quant Factors (QF), Stock Research Summary (SRS) and Price Potential Score (PPS). Stocks which successfully qualify the second stage become eligible for third stage filtration. In this stage, stocks are further filtered on the basis of some subjective criteria such as: Company's Management, Presence in the business, Track record etc. The fourth and final stage is Manual Override and in this stage actual investment decision is made. The aforementioned investment methodology has been tested by ING Institutional and Government Advisory Services, B.V., as one of the most prudent investment methodologies that results in outstanding returns in medium-to-long term.

**Asset Allocation**

As at July 31, 2007, 79% of the fund was invested in equities while the remaining 21% was held in cash or cash equivalents. The fund has highest exposure in E&P, Banks and fertilizer sectors respectively. Moreover, the fund had invested 36% of the investments in five stocks with highest exposure in OGDCL, POL and NBP respectively.

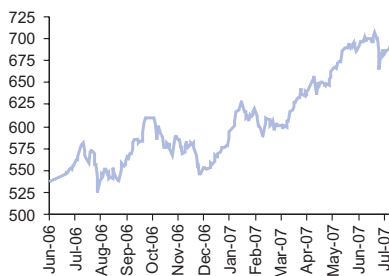
**Chart 4: Top Ten Sector Allocation as on July 31, 007**



Source: FMR ASMF (Fund Manager Report Atlas Stock Market Fund)

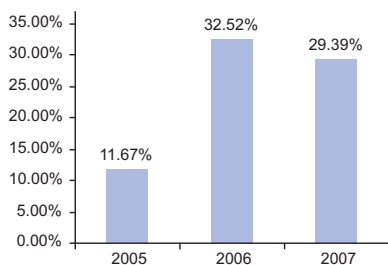


**Chart 5: Performance History**



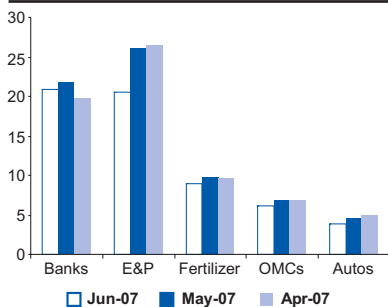
Source: FMR ASMF

**Chart 6: Calendar Year Performance**



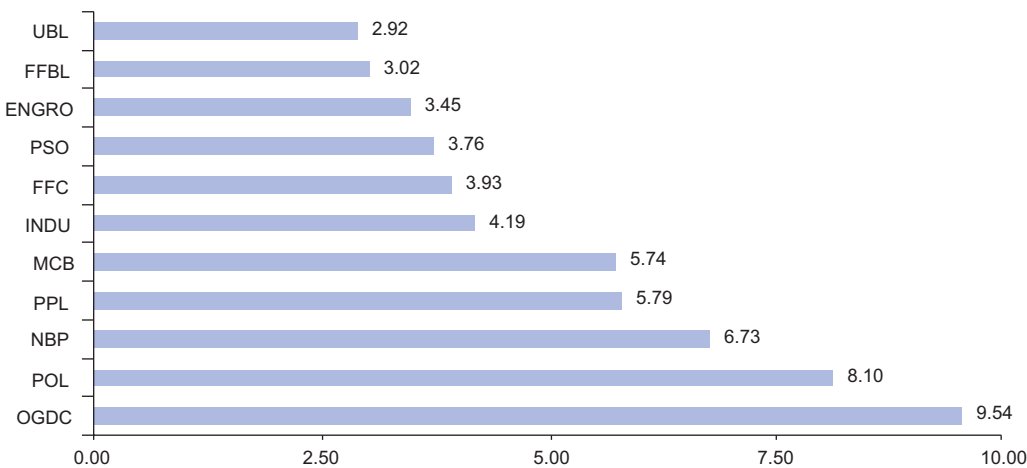
Source: FMR ASMF

**Chart 7: Major Sector Allocation March-June CY07**



Source: FMR ASMF

**Chart 8: Top Ten Holdings as on July 31, 2007**



Source: FMR ASMF

**Performance Highlights**

Since inception, the fund has offered a cumulative return of 74.46%, which means that if PRs.100,000 were invested in November 2004, this amount would have grown to PRs.174,460 on July 31, 2007, an average annual return of 28.25%. During the month of July 2007, the fund offered a return of (0.72%) as against the benchmark KSE-100 index return of (0.24%). Moreover, during the ongoing CY07, the fund's year-to-date return is 29.39% against index returns of almost 37%. The key reason behind the fund's somewhat relatively subtle performance during the ongoing CY07 is the significant exposure in E&P sector. In our view, taking massive exposure in E&P sector was a very prudent investment decision as the sector is fundamentally robust but due to lack of investor's interest particularly foreign investor's, the sector has somehow underperformed the index.

**Portfolio Evaluation**

During past few months, E&P, Banks, Fertilizer, OMCs and Automobile sectors have remained top five sectors of ASMF portfolio. In recent rally at domestic bourses; Banks, Fertilizer, OMCs and Automobile sectors have significantly outperformed the market. E&P was the only sector in the fund's portfolio that has demonstrated a lackluster performance and has underperformed the market. Presently, E&P sector is trading at extremely attractive levels and the likelihood of the sector to outperform the market is enormously high. Moreover, full year results of E&P sector for FY06-07 are going to be announced in next couple of weeks. As per our estimates, the sector is likely to witness fairly reasonable growth on year-on-year basis and is expected to announce lucrative payouts. The probability of the sector to trigger investor's interest right after the result announcement can not be ruled out. On the back of the expected good performance of this sector we believe that going forward, ASMF will yield relatively better results.

**Target Market for ASMF**

In our view, the fund provides an attractive investment opportunity for medium to long term investors who would like fairly decent returns on a consistent basis.

**The Bottom-line: An Investment Perspective**

We view this fund as a good long term growth play offering decent returns subject to market performance.



**United Money Market Fund (UMF)**

**Table 7: Rating by JCR-VIS**

Management Company	AM-2 Minus
United Money Market Fund	A Plus
United Growth and Income Fund	A

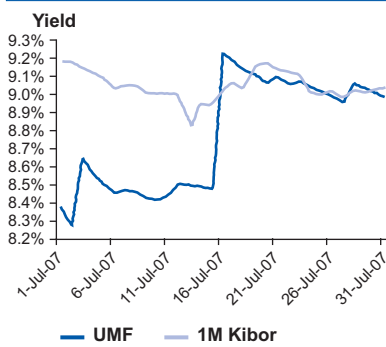
Source: FMR UMF

**Table 8: Fund Information**

Fund Type	Open End Money Market Fund
Fund Launch Date	August 07, 2002
Benchmark	1M KIBOR
Listing	KSE
Trustee	CDC
Auditors	KPMG-Taseer Hadi & Co.
Management Co. Rating	AM-2 Minus (JCR-VIS)
Fund Rating	A Plus (JCR-VIS)
Minimum Investment Amount	Rs. 5,000
Load (Front-End)	Nil
Net Asset as on July 3, 2007	PRs10.53bn
NAV as on July 31, 2007	PRs 100.9579
Management Fee	1.50% p.a.

Source: FMR UMF

**Chart 9: UMF v/s benchmark**



Source: FMR UMF

**Company Snapshot**

UBL Fund Managers presently has four funds under its umbrella namely United Money Market Fund (UMF), United Growth and Income Fund (UGIF), United Stock Advantage Fund (USF) and United Composite Islamic Fund (UCIF). The launch of fifth fund namely United Islamic Income Fund is in the pipeline. The cumulative size of four funds as on July 31, 2007, stood at PRs.24.8bn making UBL Fund Managers one of the three largest AMCs (Asset Management Companies) operating in Pakistan. The total fund size has grown by 5.79% during July 2007. The key reason behind significant growth in the fund size is the wide distribution network and impressive performance track record.

**Investment Objective**

United Money Market Fund (UMF) is an Open-End Money Market Fund, investing in a diversified portfolio of low risk assets. The fund seeks to provide attractive daily returns while maintaining comparatively high liquidity.

**Performance Highlight**

In July 07, the fund size increased by 7% to PRs.10.53bn. A significant portion of the fund remained invested in short term instruments. The fund offered an annualized return of 8.98% which was merely 6bps lower than the benchmark one month KIBOR return. The key reason behind underperforming the benchmark was because the fund manager was anticipating interest rates to go up and due to this the manager preferred to keep the fund as liquid as possible. Since inception, the fund's annualized return is 8.06% as against benchmark one month KIBOR return of 5.67%, thus outperforming the benchmark one KIBOR by 229bps. This clearly indicates that the fund has consistently offered fairly decent return to unit holders with maximum protection of their principal amount invested.

**Table 9: Performance Highlight**

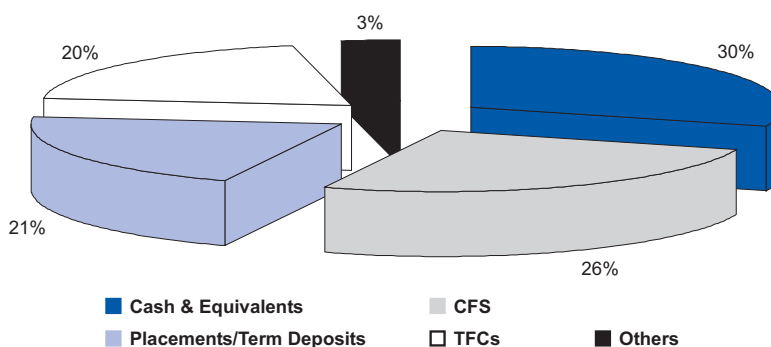
UMF Performance	UMF	Benchmark
Since inception	8.06%	5.67%
Monthly July 2007	8.98%	9.04%
Standard Deviation	3.40%	3.50%
Sharpe Ratio	0.42	0.13

Source: FMR UMF

**Asset Allocation**

As on July 31, 2007, 70% of the fund was invested in different instruments while the remaining 30% were held in cash and equivalents. In our view, recent hike in the policy discount rate by 50bps bodes extremely well for such a liquid fund. Ample liquidity will provide considerable investment opportunities to take advantage from the rising interest rate scenario. According to the fund manager, exposure towards TFCs would increase gradually to 25% and 30% going forward.

**Chart 10: Asset Allocation as on July 31, 2007**



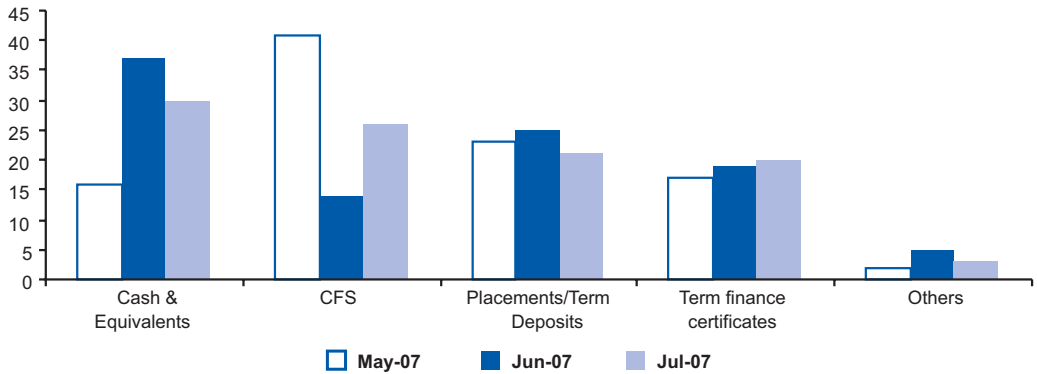
Source: FMR UMF (Fund Manager Report United Money Market Fund)

**Portfolio Evaluation**

Critically analyzing the portfolio composition of the past few months, it can be clearly seen in the following graph that the fund manager has tried to keep the fund as liquid as possible. The major reason behind this was anticipated tightening of the monetary policy by the Central Bank. Significant

portion of the fund's TFC portfolio are floating and linked with KIBOR or T-bills. Due to 50bps increase in policy discount rate, returns on the fund's TFC portfolio are likely to increase in coming months.

**Chart 11: Portfolio Composition**



Source: FMR UMF

The fund is likely to gradually increase its exposure towards TFCs in near future. Massive TFCs offerings are scheduled to take place in next few months. In our view, ample liquidity coupled with recent interest rate hike and massive TFCs offerings would enable the fund to offer even better returns to unit holdings in near future.

As per our analysis, the recent hike in the policy discount rate bodes well for income/money market funds particularly those having massive liquidity. In our view, following could be some possible impact of the recent 50bps hike in discount rate on fixed income funds in general and liquid funds such as UMF in particular.

**Table 10: Money Market mutual funds primarily invest in the following instruments; probable impacts of rise in discount rate would be:**

1. Bank deposits	- Positive -	With rising interest rate scenario, both lending as well as deposit rates would increase.
2. Money market instruments	- Positive -	Money market transactions are primarily linked with KIBOR and hence with increased interest rates, returns are expected to improve.
3. COIs and TDRs	- Positive -	Same as above.
4. Govt. securities	- Negative-	Govt securities provide returns at fixed rates. Investments in Govt. securities will continue to provide the same returns while yield on alternative investments would go up, thus resulting into fall in market prices of these investments. Since the fund has only 3% investments in Govt securities, thus this is going to have marginally negative impact on the fund.
5. CFS	- Neutral to positive-	These are more market driven. However, with rising interest rates, neutral to positive impact may be seen.
6. TFCs	- Positive -	Since most of the TFCs are KIBOR linked, returns would improve.

Source: IGI Research

**Target Market for UMF**

In our view, the fund provides an excellent investment opportunity for retail as well as institutional investors, who wish to have liquidity as well as decent money market returns on idle cash.

**Bottom-line: An Investment Perspective**

We view this fund as a defensive growth play offering steady return with maximum protection of capital.





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## Investment Bank

I, Tahir Hussein Ali, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject, securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report.

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