

## FUND SELECT

An Investment Guide to Mutual Funds

### Highlights

#### Market Roundup

During the month of May 2007, the interbank money market remained considerably tight with average overnight rate for the month standing around 8.95%. Moreover, equity market witnessed robust growth as KSE-100 index gained 592points (4.78%) to close at 12,369.70

#### Spotlight on “KASB LIQUID FUND”

Since inception, KASB Liquid Fund (KLF) has witnessed unprecedented growth. Commencing with an asset base of merely PRs 505mn, the fund size has grown to PRs 4.98bn on May 31, 2007. This translates into a massive growth of 886% in a span of one year.

#### Spotlight on “Meezan Islamic Fund”

Meezan Islamic Fund (MIF) is a Shariah Compliant open-ended equity fund, launched with a defined investment objective: “*To invest only in Shariah compliant instruments.*” During May 2007, the fund has managed to outperform the KSE-100 index by a decent margin.



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# IGI

Investment Bank

## Market Roundup

(PRs bn)

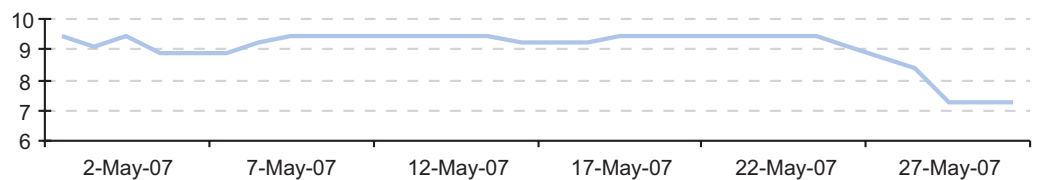
Discount During May 2007	
Date	Amount
May 04,07	14.35
May 10,07	12.62
May 12,07	19.04
May 14,07	5.00
May 15,07	5.30
May 16,07	9.00
May 17,07	6.50
May 18,07	16.74

Source: IGI Research

### Money Market in Focus

During May 2007, the interbank money market remained considerably tight with average overnight rate for the month standing around 8.95%. Because of liquidity crunch, market participants approached the SBP discount window eight times during the month and cumulatively borrowed PRs 88.55bn from the central bank. During the month, the SBP did only one OMO (Open Market Operation) on May 30, and mopped up PRs 11bn @ 8.75%. Moreover, the Central Bank conducted two T-bill auctions and accepted cumulative bids worth PRs 29.2bn. It is imperative to note that in both these auctions, SBP increased cutoff yield of 12month T-bill, from 9.0880% to 9.1119%, however, cutoff yield of 3 and 6 month T-bills were held intact at previous level.

### Overnight Rate



Source: IGI Research

### Equity Market Snapshot

During the month under review, KSE-100 index gained 592points (4.78%) to close at 12,369.70. Bulls dominated the market on the back of good corporate results, investment friendly budget expectations and increased foreign inflows. Commercial Banks, Refineries and Insurance outperformed the index by a fairly good margin while the E&P sector continued its lackluster performance. Average volumes in the ready counter increased almost 6%MoM (Month-on-Month basis) while volume in futures counter plunged 11%MoM. It is interesting to note that the market witnessed bullish trend throughout the month despite uncertainty on political and ceiling on CFS (which had already been hit). Average CFS rate during the month under review stood much lower at 11.75%, which depicts prevalence of ample liquidity in the market.

### KSE Review

	KSE-100 Index	KSE-30 Index	Market Capitalization	Avg Turnover Ready	Avg Turnover Futures
31-May-07	12,961.26	16,277.49	3,781.18	284.77	57.35
30-Apr-07	12,369.70	15,390.36	3,603.54	267.83	64.64
<b>%ChgMoM</b>	<b>4.78%</b>	<b>5.76%</b>	<b>4.93%</b>	<b>6.32%</b>	<b>-11.28%</b>

Source: KSE &amp; IGI Research

## Spotlight on “KASB LIQUID FUND”

Validity Date: June 12, 2007

	Offer Price	Redemption Price
<b>KLF</b>	PRs. 110.40	PRs. 110.40
<b>KLF w/load</b>	PRs. 110.40	PRs. 109.84

## Brief Company Overview

KASB Funds Limited (KFL) commenced its operations in April 2005. The company launched its first fund “KASB Liquid Fund” in May 2006 with initial asset base of PRs 505mn. In August 2006 Merrill Lynch Investment Manager Group Limited UK (MLIM), one of the world’s largest asset management companies with nearly US\$ 1trillion assets under management, acquired equity stake in the company. Recently, in March 2007, another fund “KASB Stock Market Fund” was launched. Presently, the company has more than PRs 5bn under management and has extensive presence in both money market and equity market. KASB Fund Limited is rated AM3+ by PACRA. In FY08, the management intends to launch three more funds. The upcoming funds will explore the untapped alternative investment market and will focus on equity market by raising funds from regional markets, foreign investors and expatriate Pakistanis.

## KASB Liquid Fund

Since inception, KASB Liquid Fund (KLF) has witnessed unprecedented growth. Commencing with an asset base of merely PRs 505mn, the fund size has grown to PRs 4.98bn on May 31, 2007. This translates into a massive growth of 886% in a span of one year.

## Fund Snapshot

Fund Type	Open-ended money market
Fund Objective	The Fund seeks to maximize current income, consistent with low levels of risk and high liquidity.
Inception Date	May 9, 2006
Listing	Karachi Stock Exchange
Fund Size (May 31, 2007)	PRs 4.98bn
Current NAV (May 31, 2007)	PRs 110.09
Front-end Load	Nil
Back-end Load	Nil
Back-end Load(Contingent)	0.50% (if redeemed within 15days of investment)
Minimum Initial Investment	PRs 10,000 only
Benchmark	One month KIBOR
Trustee	Central Depository Company (CDC) of Pakistan
Custodian	Central Depository Company (CDC) of Pakistan
Registrar	Noble Computer Services (Pvt.) Limited
Auditor	KPMG Taseer Hadi & Co
Legal Counsel	Bawaney & Partners

Source: KLF Fund Manager Report(FMR)

## Key Features

Compared to bank deposits and other fixed income investment products, KASB Liquid Fund offers some unique facilities to unit holders. Followings are some of the key features of the product.

- Compared to Banks and NSS (National Saving Scheme), KASB Liquid fund offers sustainable high return.
- Being open ended mutual fund, the income is tax free under government regulations as compared to bank deposits and other fixed income investments.
- There is no time restriction. The investors can withdraw their investment any time, anywhere nationwide.
- KASB Liquid Fund primarily invests in short term investments with strong credit rating. The units can be pledged as collateral for bank borrowing.
- Investment in KASB Liquid Fund can be commenced with as low as PRs 10,000. After the initial investment, further investments can be made into the Fund with as low as PRs 1,000.

**Fund Performance**

During the month of May 2007, the fund offered annualized return of 9.81%, which was 35bps higher than the benchmark one month KIBOR. The fund completes its first year of operation during the month. Since inception, it offers an annualized return of 10.86%, which is reasonably higher than the benchmark one month KIBOR. Moreover, the annualized return of the fund is considerably higher than the return offered by National Saving Schemes (NSS) and banks' saving deposits. The outstanding fund performance is the outcome of the professional management expertise and clearly reflects the prudent diversified investment decisions made by the fund managers.

**Average rate p.a. for May 2007**

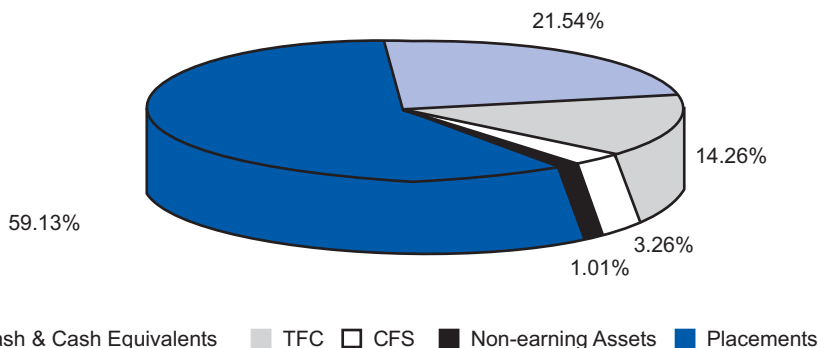
Overnight	9.50%
6-Month T-Bill	8.93%
1- Month KIBOR	9.46%
KASB Liquid Fund	9.81%
NSS Saving Account	5.50%-6.00%

Source: KLF FMR & IGI Research

**Asset Allocation**

During the month of May 2007, the fund increased its exposure to TFCs (Term Finance Certificates) and placements. The key reason behind this is the fact that returns offered by TFCs and placements were comparatively higher than that of CFS. Moreover, unlike other funds, the management of KASB Liquid Fund intends to keep minimum exposure towards CFS. Coupled with these, during May 2007, the fund size continued its robust growth and the total fund size surged to PRs 4.98bn from PRs 3.54bn a month earlier. In our view, the formation of secondary corporate debt market would bode well for the fund. The much awaited development of secondary corporate debt market would enable the fund manager to make even better and more prudent investment decisions, going forward.

**Weighted Asset Allocation for May 2007**



Source: KLF Fund Manager Report(FMR)

**Who should investment in KLF?**

Keeping in view aforementioned facts, in our view, the fund offers ideal investment opportunity to:

- Investors (retail as well as institutional) seeking a parking opportunity for their short-term investments which yields competitive returns.
- Risk-averse investors looking for current income and seeking preservation of investment.

**The Bottomline: An Investment Perspective**

We view this fund as defensive growth play, offering sustainable return to unit holders.

## Spotlight on “Meezan Islamic Fund”

Validity Date: June 11, 2007

	Offer Price	Redemption Price
MIF	PRs 76.44	PRs 74.72

### Company Overview

Established in 1995, Al Meezan Investment Management Limited is committed to the development of Shariah Compliant investment products in Pakistan. The primary objective of the company is to provide maximum total return to the investors from investment in Shariah Compliant instruments. The company has been assigned AM2 management quality rating. Al- Meezan Investment Management Ltd is one of the four Asset Management Companies in Pakistan that has been awarded license for the launch of the much awaited pension fund. Recently, the Trust Deed of Pakistan's first Shariah Compliant Pension Fund Scheme- Meezan Tahaffuz Pension Fund (MTPF) has been executed between the company and Central Depository Company of Pakistan. According to the management, MTPF is expected to be launched in June 2007. Presently, the company has four funds (two open-ended and two close-end) with more than PRs 7bn under management. The company has become first Asset Management Company in the country whose all funds are 5-Star Rated. Al-Meezan Investments Ltd also enjoys the distinction of being the first Asset Management Company in Pakistan, which has adopted and implemented “Asset Manager Code of Professional Conduct” of CFA Institute USA.

### Meezan Islamic Fund

Meezan Islamic Fund (MIF) is a Shariah Compliant open-ended equity fund, launched with a defined investment objective: “To invest only in Shariah compliant instruments.” Commencing journey with initial amount of Rs 520mn in August 2003, the fund size has grown to PRs 3,645mn in May 2007.

### Fund Snapshot

Fund Type	Open-end equity fund
Inception Date	August 8, 2003
Listing	Karachi Stock Exchange
Fund Size (May 31, 2007)	PRs 3.64bn
Current NAV (May 31, 2007)	PRs 71.74
Front-end Load	2%
Back-end Load	Nil
Minimum Investment	PRs 5,000. Further investment can be made with PRs 1,000 or more
Rating	5 Star
Trustee	CDC Pakistan
Auditor	KPMG Taseer Hadi & Co.
Registrar/Transfer Agent	Meezan Bank Limited

Source: MIF Fund Manager Report (FMR)

### Salient Features

Being Shariah Compliant, the fund is prohibited to invest in shares of conventional banks, insurance companies, leasing companies, companies dealing in alcohol, tobacco, etc. In addition to this, the fund has to evaluate a company on the following criteria before making any investment.

- The total debt of the Investee Company should not exceed 40% of the total assets.
  - Cumulative illiquid assets of the Investee Company as a percentage of the total assets should be at least 20%.
  - The total investment of the Investee Company in Shariah non-compliant business should not exceed 33% of its total assets.
  - The income from Shariah non-compliant investment should not exceed 5% of the gross revenue of the Investee Company. (Gross revenue means net sales plus other income).
  - The net liquid assets per share should be less than the market price of the share.
- After initial screening of the companies on the above criteria, MIF invests in short-listed companies;

which provides opportunity to earn regular income in the form of dividends or which have good growth prospects in terms of future expansion or which are liquid so as to provide ease of entry and exit.

### Fund Performance

During May 2007, the fund has managed to marginally outperform the KSE-100 index. As mentioned earlier in the report, being Shariah compliant, the fund is restricted to make investments in some specific sectors. In recent past the financial sector companies particularly banks and insurances have significantly outperformed the KSE-100 index. Without taking exposures into the those sectors, the fund has offered outstanding return to unit holders and managed to outperform the index. This glaringly reflects shrewd and sophisticated investment decision made by the fund manager.

#### Relative Performance: MIF & KSE-100 Index

	MIF	KSE-100
Return during May 2007	4.87%	4.78%
Year to date	22.38%	29.75%
Return since inception	174.85%	208.28%

Source: MIF FMR

### Asset Allocation

As on May 31, 2007, the fund was 86.93% invested in the equity market. MIF was having highest exposure in Exploration and Production sector followed by Fertilizer sector. Top ten holdings of MIF can be seen in the table below. In our view, the fund managers have prudently placed funds in robust growth plays, as each of the following stocks have the potential to significantly outperform the KSE-100 index. Analyzing the fund based on key fundamental indicators, in comparison to KSE-100 index, the fund appears relatively less risky and is expected to outperform the index if the market witness any correction, going forward. Moreover, the fund appears comparatively cheap and offers relatively better dividend yield.

#### Portfolio Valuations

	MIF	KSE-100
Standard Deviation	1.25%	1.26%
Beta	0.90	1.00
Correlation	0.94%	-
Prospective P/E Multiple	10.78	11.5
Prospective Dividend Yield	6%	5%

Source: MIF FMR

#### Top Ten Holdings as on May 31, 2007

1	Al Meezan Mutual Fund	6	Nishat Mills
2	Engro Chemical	7	Oil and Gas Development Company
3	Fauji Fertilizer Company	8	Pakistan Oilfield Limited
4	Fauji Fertilizer Bin Qasim	9	Pakistan Petroleum Limited
5	National Refinery	10	Packages Limited

Source: MIF FMR

### Who should invest in MIF?

Meezan Islamic Fund provides an ideal investment opportunity to all those investors who prefer to park their savings according to Shariah but don't have the expertise to evaluate whether a stock is Shariah compliant or not. Moreover, general investors looking for good return in medium term should invest in the fund due to the fact that most of the companies in which the fund is restricted to make investments are either fairly valued or overvalued.

### The Bottomline: An Investment Perspective

We view this fund as a robust growth play, offering consistent return in a true Islamic way.

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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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