

FAYSAL ASSET MANAGEMENT LIMITED

COMMITTED TO SETTING NEW STANDARDS IN INVESTMENT MANAGEMENT

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Risk vs. Reward: How Bonds Behave

A Bond is a loan with varying degrees of structures. A bond is usually termed as a safe long-term investment. Bonds can be issued by the government or corporations or other institutional entities etc. The bonds can have a fixed or variable structure. For example a bond can pay fixed rate of interest or a variable rate of interest. Bonds can also have a complex structure with a convertible feature to equity.

Bonds generally are termed as conservative in nature but their safety is only relative. A one year bond issued by the government, called Treasury bill (T-Bill) is also known as the risk-free rate. All other investments of fixed income in nature or even in other asset classes are then compared to this risk-free rate of return to assess the risk premium offered. This risk premium is then compared to the potential return or yield of these investments to assess their viability. The calculation of risk adjusted return also determines a similar trend analysis highlighting the real rate of return on an investment.

Investors generally looking for safety of principal and an income stream invest in Government or Corporate bonds. Bonds carry varying degrees of risk. Government bonds or lower-return bonds have the risk of returning less to the investors than the prevailing inflation rate. Bonds generally trade opposite to the equity markets and their yields tend to move downward with the strength in the economic growth.

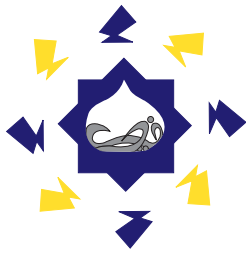
Bonds also carry credit risk, prepayment risk, call option risk, duration risk, interest-rate risk along with inflation risk. Investors need to assess each bond separately in order to optimize their portfolio yield. Investors also need to understand that higher risk bonds offer higher rate of return called yield. The longer term duration bonds also offer higher rate or yield as well.

A detailed credit analysis is required to analyze investments in bonds. The credit analysis determines the debt-repayment capacity along with the inherent risk of each individual bond investment. Yield and prices of bonds have an inverse relationship. Investors also need to understand the Yield-to-Maturity (YTM) concept.

Example: If an investor purchases a bond for Rs. 1000 paying 10% coupon then the current yield is 10% (Rs. 100/Rs.1000). If the price of the bond drops to Rs. 800 then the yield moves to 12.5% approximately depending on the time horizon. This means that if an investor purchases this bond around this price the gain will be now higher than the original 10%. Yield-to-maturity indicates the total return earned by an investor for holding a bond till maturity. YTM can include the interest payments along with capital gains/losses to arrive at the total return on the investment.

Bonds should be looked at as an investment instrument to achieve portfolio diversification. The addition of bonds along with other asset classes can help investors achieve portfolio optimization.

We would like to direct your attention towards Faysal Savings Growth Fund where the asset allocation in government bonds has increased sequentially with the shift in the monetary policy.



FAYSAL ASSET MANAGEMENT LIMITED

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FAYSAL
BALANCED
GROWTH FUND

JULY 2009

INVESTMENT OBJECTIVE		FUND INFORMATION					
FBGF endeavors to provide investors with an opportunity to earn income and long-term capital appreciation by investing in a large pool of funds representing equity/non equity investments in a broad range of sectors and financial instruments.		FUND TYPE	OPEN ENDED-BALANCED FUND	REGISTRAR	GANGJEES REGISTRAR SERVICES (PVT) LTD.		
		FUND LAUNCH DATE	19 th APRIL 2004	TRUSTEES	CENTRAL DEPOSITORY COMPANY OF PAKISTAN		
		PERFORMANCE BENCHMARK	KSE-100 INDEX/ 6 M KIBOR	AUDITORS	FORD RHODES SIDAT HYDER & CO., CHARTERED ACCOUNTANTS		
		RATING	3 Star by JCR-VIS				
RETURNS		PORTFOLIO CHARACTERISTICS			RISK QUANTS		
MONTH ON MONTH	5.71%	P/E RATIO	7.92x	ALPHA	0.0004	VAR	1.12%
YEAR TO DATE	5.71%	DIVIDEND YIELD	7.44%	BETA	0.5615	R ²	0.5276
SINCE INCEPTION	35.29%			SHARPE	-0.1275	SORTINO	-0.1830
ANNUALIZED RETURN	5.89%			STD.DEV.	0.68%	KURTOSIS	1.6267

STOCK MARKET REVIEW

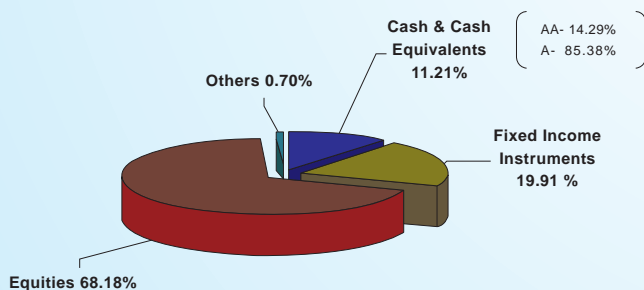
The stock market remained bullish for most part of the month and closed up 7.80% in July. The KSE-100 index started this month at a level of 7,162.18 and closed at a level of 7,720.93. Net positive buying was witnessed by foreigners for the second consecutive month although the quantum was still low compared to other emerging markets. According to the data provided by NCCPL, in the month of July foreigners bought shares worth USD 61.40 Mn and sold shares worth USD 49.36 Mn thus resulting in net buying of USD 12.04 Mn. Starting January foreigners have sold shares worth USD 682 Mn and bought shares worth USD 432 Mn resulting in net selling of USD 250 Mn. This was mainly because of the poor law and order situation in the country and political unrest. The State Bank of Pakistan was earlier supposed to announce monetary policy statement on 25th July however they shifted the announcement to 15th August. This resulted in panic selling in the market as investors became cautious to a less than expected cut in the discount rate. This also led to an increase in cut off yield on 12 month T-bills where the yields jumped up by 34 bps. However the market recovered on the last day of the month and closed up 3.01% for the day. Supreme Court on Friday announced that former President Pervez Musharraf trampled the constitution when he imposed emergency rule two years ago. This is likely to pose problems for the civilian leadership as all actions taken by Musharraf including NRO are likely to be reviewed. Hence a cautious stance cannot be ignored. Result season has already started and we believe that listed companies with government stakes are likely to announce good payouts to provide much needed liquidity to the government. This can prove to be a catalyst for a short term bull rally if payouts exceed analysts expected forecasts.

We believe that the stock market will most likely remain bullish during the month of August. According to Mr. Tareen IMF is likely to release USD 3.1 Bn in its meeting on 7th August and a further USD 1.0 Bn in Dec. If this happens the pressure on PKR will reduce, improving liquidity in the system, driving the yields on government securities down and probably giving SBP enough room for a decent cut in discount rate. Hence we remain bullish on high dividend yielding and defensive stocks.

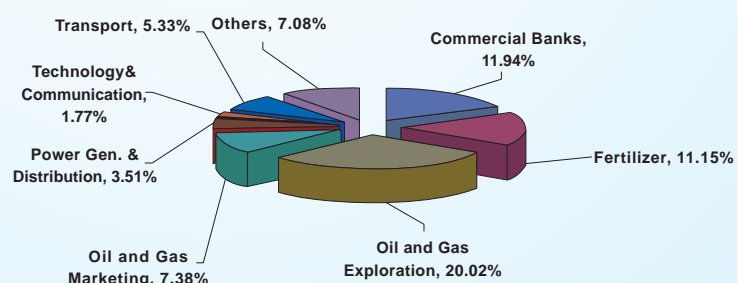
PERFORMANCE

FBGF started this year on a positive note and was the number one fund for this month in the balanced funds category. FBGF started July at a NAV/unit of PKR 76 and closed the month at a NAV/unit of PKR 80.34, up 5.71% on a MoM (Month on Month) basis. In comparison FBGF's benchmark gave a return of 5.63% for the month of July. Hence FBGF outperformed the benchmark return by 8 bps (basis points). On a year to date (YTD) basis FBGF gave a return of 5.71% as well. Comparing FBGF to its peer group FBGF outperformed the average return of the peer group by 100 bps as the average peer group return for the month was 4.61%. The average return of balanced and asset allocation funds for the month was 5.01% where FBGF again outperformed the average return by 70bps. On the asset allocation side exposure in equities was slightly increased to 67.94% from previous month's level of 65.79%. Allocation in other asset classes was more or less maintained at last month's level.

ASSET ALLOCATION (%)

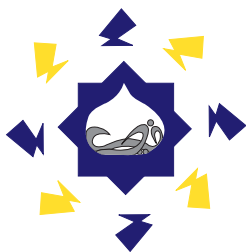


SECTOR ALLOCATION (%)



Risk Disclosure:

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FAYSAL ASSET MANAGEMENT LIMITED

COMMITTED TO SETTING NEW STANDARDS IN INVESTMENT MANAGEMENT

Faysal
Income & Growth Fund

JULY 2009

INVESTMENT OBJECTIVE		FUND INFORMATION							
FIGF seeks to provide risk-averse investors an opportunity to earn a consistent market based income with conservative risk profile while maintaining security of principal as its prime objective.		FUND TYPE		OPEN ENDED-INCOME FUND	REGISTRAR	GANGJEES REGISTRAR SERVICES (PVT) LTD.			
		FUND LAUNCH DATE		10 th OCTOBER 2005	TRUSTEES	CENTRAL DEPOSITORY COMPANY OF PAKISTAN			
		PERFORMANCE BENCHMARK		6 MONTH KIBOR	AUDITORS	FORD RHODES SIDAT HYDER & Co., CHARTERED ACCOUNTANTS			
		RATING		A+ by JCR-VIS					
RETURNS		MONEY MARKET RETURNS				RISK QUANTS			
MONTH ON MONTH	22.42%	KIBOR		T-BILLS		ALPHA	0.0003	VAR	0.20%
YEAR TO DATE	22.42%	3M	11.91%	3M	11.58%	BETA	-0.0176	R ²	0.0071
SINCE INCEPTION	10.13%	6M	12.07%	6M	11.62%	SHARPE	-0.0428	SORTINO	-0.0531
YTD AVG. MARKET RETURN	18.96%	12M	12.82%	12M	11.61%	STD.DEV.	0.12%	KURTOSIS	7.8732

ECONOMIC OUTLOOK

Though recovery on major indicators seemed to reflect its domino effect on broader picture of economy, a new series of ambiguities enthralled the market during the month of July. The delays in Monetary Policy Statement and unattractive trade policy have created unrest in the capital market activities.

One of the exciting announcements in Trade Policy is the government intention regarding export target. The government has scaled down the country's export target for the current fiscal year to USD 18.9 Bn as compared to USD 22.1 Bn last year, representing a decline of 15% YoY (Year on Year). Despite the decline we believe above mentioned target is bit optimistic to achieve.

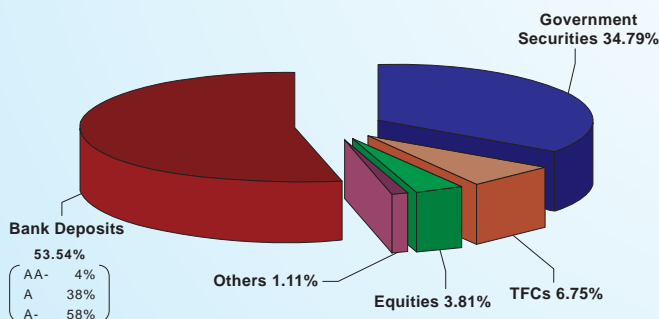
Despite the consecutive month on month decline in head line inflation month of July ended on bit different note. SPI for the week ended July 30, 2009 posted a surge of 2.3% MoM (Month on Month). Inflation which has closed the year at 13.13% in June 2009 is expected to remain in the range of 12.5%-12.8%. Despite the expected price hike in Ramadan season we expect headline inflation, one of the biggest threats to the economy, to fall significantly in the next few months, provided there is no significant jump in oil prices. This will also provide breathing space to the central bank to soften its monetary policy stance and substantially cut policy rate during 1HFY10 subject to expected inflows in 1QFY09. Significant fall in Pakistan's internationally quoted Credit Default Swap also hints towards a ratings upgrade.

The SBP has recently delayed the Monetary Policy Statement till Aug 15, 2009, we believe outcome of upcoming foreign inflows (IMF has withheld the decision regarding additional loan of USD 4 Bn and deferred the disbursement of USD840 Mn tranche) from IMF would largely determine SBP policy stance. We expect the IMF and SBP to be way of easing off rates at an accelerated pace in FY10. We believe following the receipt of expect inflow SBP would adopt more softening monetary policy stance. Though, we are not expecting a sharp rate cut in 1QFY09 monetary policy. We believe that a considerable fall in head line inflation and the need to spur GDP growth will bring a cumulative 300 bps cut in Discount Rate by June 2010 Monetary Policy.

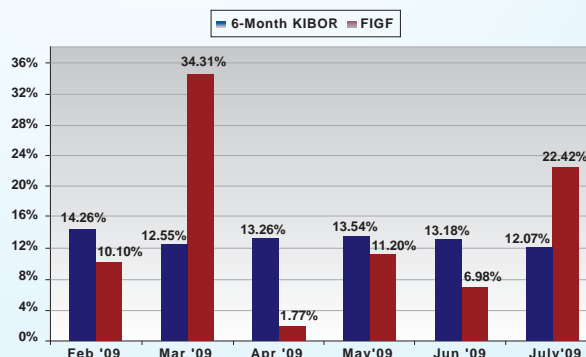
PERFORMANCE

FIGF performed significantly exceptional during the month by giving a MoM (Month on Month) return of 22.42% as compared to its benchmark return of 12.07%; therefore FIGF outperformed the bench mark by 10.35%. FIGF started July at a NAV/unit of PKR 101.80 and closed the month at a NAV/unit of PKR 102.75 after giving a payout of PKR 0.80 per unit to its valued investors. On the asset allocation side, we would like to inform our valued investors that our fund is quite liquid having portfolio of 53.54% in Bank Deposits, 34.79% in Government Securities, 6.75% in TFCs and 3.81% in Equities. The strategy remains to lookout for the opportunities with good return at an acceptable medium risk levels.

ASSET ALLOCATION (%)



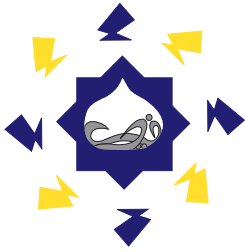
KIBOR (6 M) vs FIGF



Monthly Return is calculated by Morning Star Method (CAGR) as per the requirement of MUFAP

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FAYSAL ASSET MANAGEMENT LIMITED

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FAYSAL SAVINGS GROWTH FUND

JULY 2009

INVESTMENT OBJECTIVE		FUND INFORMATION							
FSGF seeks to provide maximum possible preservation of capital and a reasonable rate of return via investing primarily in money market & debt securities having good credit rating and liquidity.		FUND TYPE	OPEN ENDED-MONEY MARKET FUND		REGISTRAR	GANGJEES REGISTRAR SERVICES (Pvt) LTD.			
		FUND LAUNCH DATE	7 th MAY 2007		TRUSTEES	CENTRAL DEPOSITORY COMPANY OF PAKISTAN			
		PERFORMANCE BENCHMARK	1 MONTH KIBOR		AUDITORS	FORD RHODES SIDAT HYDER & CO., CHARTERED ACCOUNTANTS			
		RATING	A by JCR-VIS						
RETURNS		MONEY MARKET RETURNS				RISK QUANTS			
MONTH ON MONTH	13.25%	KIBOR		T-BILLS		ALPHA	0.0004	VAR	0.07%
YEAR TO DATE	13.25%	1M	11.91%	3M	11.58%	BETA	0.0056	R ²	0.0436
SINCE INCEPTION	11.67%	6M	12.07%	6M	11.62%	SHARPE	0.2229	SORTINO	0.1799
YTD AVG. MARKET RETURN	11.62%	12M	12.82%	12M	11.61%	STD.DEV.	0.04%	KURTOSIS	6.7834

MONEY MARKET REVIEW

Money market during the month of July 2009 remained quite volatile and rates witnessed major fluctuations. On average, REPO traded between the levels of 12.25% -12.75%; touching a low of 2.00% and high of 13.90% during the month. Pakistani Rupee remains under pressure reflecting strong demand of US dollar which has crossed PKR 83 psychological mark. The depreciating Pakistani rupee would be under further pressure, since banks have to arrange foreign exchange for oil payments from August 01, 2009.

SBP conducted two T-Bill auctions during July 2009, banks showed significant interest in one-year paper, as they wanted to invest in long-term papers because of expectations of decrease in interest rates. However in the second T-bill auction of the month, the cut off yield on the 12M bill was raised by 34 bps to 11.8769% as compared to 11.5392% in the first auction, the pre-auction target was PKR 45 Bn and SBP accepted PKR 44.2 Bn against the 12M tenor while rejecting all bids on the 3M and 6M tenors. The main reason of increase in cut off yield was the delay in the monetary policy; the market lowered the interest rate cut expectation from 150 bps to 100 bps. The monetary policy is due to be announced on August 15, 2009.

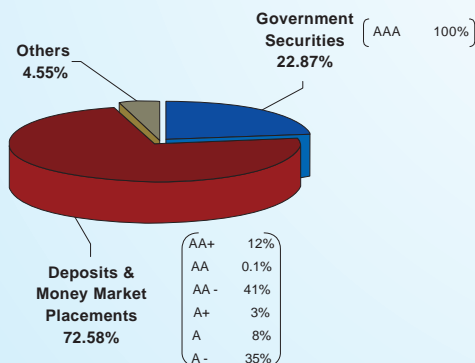
The profit rates on NSS products have been revised downwards in July 2009. This has implications for banks where we believe lower NSS rates going forward could encourage greater funds flow into bank deposits. The IMF has stated that it is considering an increase for an aid package for Pakistan in its meeting scheduled on August 7, 2009. The disbursement of the IMF aid package will release pressure on Pak Rupee and will also ensure the timely repayments of foreign currency loans. The foreign reserves will also see a positive change with this inflow along with restoring investors' confidence. With the release of IMF tranche as desired, we are expecting more activities in T-bills and PIBs in the coming months. The high demand for government securities in general is being driven by the banking sector's reluctance to lend to the corporate sector.

PERFORMANCE

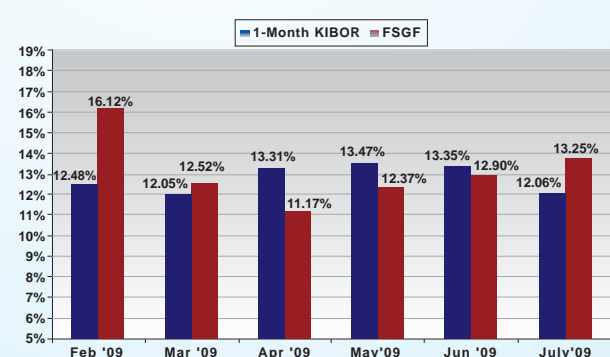
FSGF performed quite excellent during the month. In July 2009, FSGF gave a MOM (Month on Month) return of 13.25% as compared to its benchmark return of 12.06%, therefore FSGF outperformed by 1.19%.

The asset allocation comprises of 72.58% in Bank Deposits & Money Market Placements and 22.87% in Government Securities. FSGF started July at a NAV/ unit of PKR 103.00 and closed the month at a NAV/unit of PKR 101.23 after giving a payout of PKR 2.80 per unit to its valued investors. The strategy will remain to mitigate interest rate risk and giving due consideration to the credit quality of the portfolio.

ASSET ALLOCATION (%)



KIBOR (1 M) vs FSGF



Monthly Return is calculated by Morning Star Method (CAGR) as per the requirement of MUFAP

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