

# FAYSAL ASSET MANAGEMENT LIMITED

COMMITTED TO SETTING NEW STANDARDS IN INVESTMENT MANAGEMENT

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## Fund Manager Report

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## Mutual Funds: Buy & Hold And Rebalancing

Investors generally invest in mutual funds as a long-term 'buy and hold' strategy to realize the rewards. The benefits of long-term investment cannot be argued but one needs to align the investments with proper objectives or goals. An investment objective can be linked to retirement planning, children's education planning and large item purchase planning among others. These plans need careful portfolio construction with the help of available mutual funds in a variety of asset classes to properly diversify risk and maximize investment yield. The trading methodologies like cost-averaging are used to further enhance the yield on the investment.

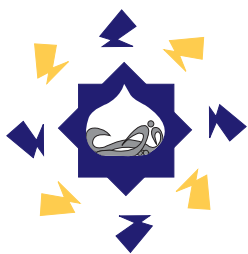
Similarly every investment must be rebalanced or altered in line with the alteration in the investment objectives of an investor. The changes in the life of a person or a family can bring about the change in the investment objectives. This change can possibly change the choice of asset class and/or the time horizon of the investment. This can also possibly change the risk adjusted required rate of return from the investments. Hence, a need for portfolio rebalancing is imminent.

The investors invested in a pool of mutual funds should also visit their financial consultants or financial planners to discuss their portfolio at least once every quarter to find out the viability and health of their portfolio. The investment portfolio needs to be in line with their current investment objectives.

Portfolio rebalancing strategy is not similar in various investment accounts with varying investment objectives. An example can be the comparison between the investment management of an educational plan with a home purchase saving plan. The education plan can be an age-based plan with a varying investment strategy between the ages of 1 to 18. This investment plan will also reduce the investment risk over the life of the plan decreasing the risk towards the maturity of the plan. The home purchase saving plan can be a moderate-growth plan with a constant strategy over a fixed period of time without changing the underlying asset classes to achieve the investment objective of the investor. Both plans will need portfolio rebalancing given the change in the underlying investments and their viability vis-à-vis the interest rate scenario and adjustment against inflation. The rebalancing of the portfolio can ensure proper risk-adjusted return required to achieve the objectives of the investor.

Mutual funds are a long-term investment tool designed to benefit investors while managing their long-term risk. Mutual funds are designed to provide investors with professional management, diversification, liquidity and simplicity. These benefits can be coupled with various trading strategies to optimize the investment yield. These benefits can only be realized with timely rebalancing through a professional investment manager.

We advise you to contact one of our investment representatives for a free **"financial check-up."** This check-up will help us determine the need for rebalancing in your investment portfolios and guide you to achieve your long term investment objectives.



# FAYSAL ASSET MANAGEMENT LIMITED

COMMITTED TO SETTING NEW STANDARDS IN INVESTMENT MANAGEMENT

FAYSAL  
BALANCED  
GROWTH FUND

MAY 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 <sup>th</sup> 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	4 Star by JCR-VIS		
RETURNS		PORTFOLIO CHARACTERISTICS		RISK QUANTS	
MONTH ON MONTH	2.56%	P/E RATIO	7.27x	R - SQUARE	0.93
YEAR TO DATE	-22.55%	DIVIDEND YIELD	7.59%	DOWNSIDE DEVIATION	0.80
SINCE INCEPTION	30.42%				
ANNUALIZED RETURN	5.33%				

\* Fund Risk figures are based on performances of the last three months only

## STOCK MARKET REVIEW

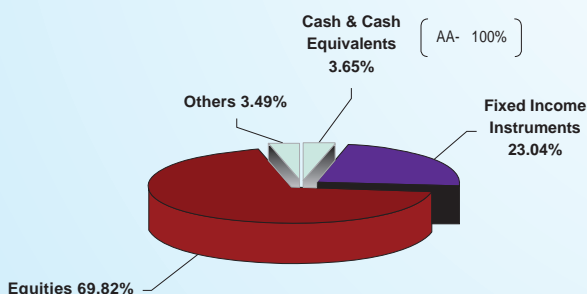
The Karachi Stock Exchange benchmark KSE-100 index started the month of April at a level of 7202.10 and closed the month at 7,276.61 up 1.03% for the month. The market remained lack luster for most part of the month as investors were hesitant to enter the market before the up coming budget. Market news regarding new taxes being levied on the capital markets and real estate in the next budget and the on-going military crackdown on extremists in Swat and other areas of Pakistan further kept the investors nervous. Average trading volumes reduced as investors preferred to sit on the sidelines. On the other hand foreign selling continued its trend however some inflow, though very small in USD terms was also witnessed on certain days. According to the NCCPL data foreign portfolio investors sold shares worth USD 22.33 Mn for the month of May putting downward pressure on the local markets. On a Year to Date (YTD) basis cumulative selling by foreign portfolio investors stand at USD 432 Mn. Sentiments were further dented as IMF delayed payment of the third tranche of USD 850 Mn by one month due to non-settlement of key budget issues. We believe that the main theme in this budget would be revenue collection by increasing tax to GDP ratio through expansion of the tax net. The Supreme Court declared the Sharif brothers eligible to contest elections in Pakistan. They had been disqualified from holding offices on February 25<sup>th</sup> 2009. While Shahbaz Sharif had already assumed office, the latest ruling paves way for Nawaz Sharif to contest elections as well.

Tight monetary policy, slow down in government borrowing from SBP and decline in international oil prices have all helped in improving macroeconomic indicators. Single digit inflation cannot be ruled out in the coming months due to high base affect. Hence a resultant decline in policy discount rate can be expected. This will push the yields on government papers down improving equity valuations and dividend yields. Thus we continue to target high dividend yielding growth stocks.

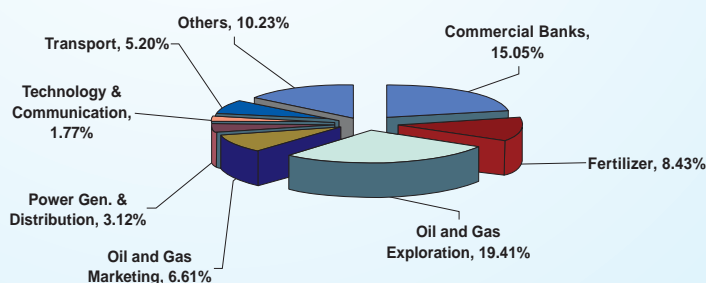
## PERFORMANCE

FBGF started May at a NAV/unit of PKR 75.52 and closed the month at a NAV/unit of PKR 77.45, up 2.56% on a MoM (Month on Month) basis. In comparison FBGF's benchmark gave a return of 1.05% for the month of May. The average return of open-ended Balanced and Asset allocation funds for the month of May was 1.66%. On the asset allocation side exposure in equities was increased to 69.82% from previous month's level of 64.24%. Allocation in other asset classes was more or less maintained at last month's level. Management continues to manage the portfolio on proactive basis to maximize returns and reduce the total risk of the portfolio.

### ASSET ALLOCATION (%)

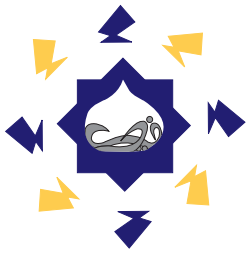


### SECTOR ALLOCATION (%)



#### Risk Disclosure:

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# FAYSAL ASSET MANAGEMENT LIMITED

COMMITTED TO SETTING NEW STANDARDS IN INVESTMENT MANAGEMENT

**Faysal**  
Income &  
Growth Fund

MAY 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 <sup>th</sup> 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	11.20%	KIBOR		T-BILLS	R - SQUARE	0.01	
YEAR TO DATE	9.14%	3M	13.48%	3M	13.10%	DOWNSIDE DEVIATION	0.09
SINCE INCEPTION	10.16%	6M	13.54%	6M	13.11%		
YTD AVG. MARKET RETURN	3.03%	12M	14.01%	12M	13.10%		

\* Fund Risk figures are based on performances of the last three months only

## ECONOMIC OUTLOOK

The outlook for the Pakistani economy continued to improve over the month of May as the economy continues to wait for the announcement of the Federal Budget for the fiscal year 2010. Given the recent inflows and pledges of aid by the Friends of Democratic Pakistan and other international financial institutions, the IMF has agreed to allow the Government of Pakistan to pursue expansionary economic policies in the coming fiscal year.

While economic growth has come to a virtual standstill for the fiscal year 2009 (expected GDP growth rate is at 2.37%), it is encouraging to note that the government is expected to allocate approximately Rs. 500 bn towards the Public Sector Development Program (PSDP) to act as a fiscal stimulus to the economy. Its dividends are expected to be minimal in FY2010, but infrastructure spending should enhance the overall capacity of the economy to grow in the coming years.

In yet another piece of positive news, the current account deficit during the first ten months of the current fiscal year declined to \$8.5 bn, from \$11.1 bn at a similar point in the previous fiscal year, a decline of 23.4%. The total current account deficit for the fiscal year is expected to reach \$9.3 bn or approximately 5.5% of the GDP.

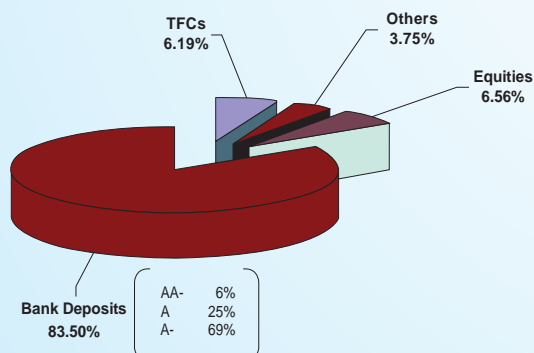
Inflation continued to witness a downward trend, with the consumer price index (CPI) declining to 17.19% for the month of April as opposed to 19.07% for the month of March 2009. Continuing the encouraging trend, leading indicators such as the wholesale price index (WPI) declined to single digits for the first time in this fiscal year, dropping from 11.08% in March to 8.30% in April. This suggests a continuation of the dissipation of the surge in inflation over this past fiscal year. The market consensus on a decline in the discount rate, coupled with the corresponding decline in KIBOR, remains the same. Interest rates are expected to decline by 300 basis points over the final six months of the current calendar year.

## PERFORMANCE

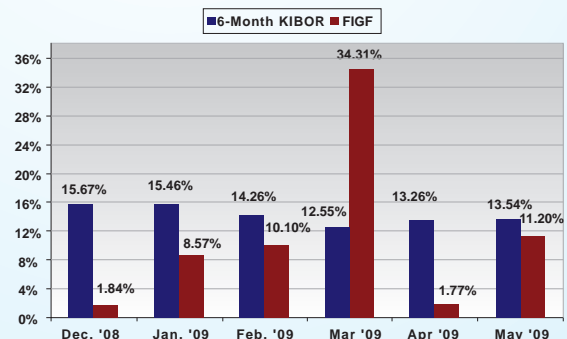
FIGF performed excellent during the month by giving a MoM (month on month) return of 11.20% as compared to 1.77% last month, a net increase of 9.43% on MoM basis. YTD (Year to date) return at 9.14% as compared to average YTD return of its peer group of 3.03%, therefore FIGF out performed the peer group by 6.11%.

FIGF started May at a NAV/unit of PKR 100.35 and closed the month at a NAV/unit of PKR 101.20. On the asset allocation side, we would like to inform our valued investors that our fund is quite liquid having portfolio of 83.50% in Bank Deposits, 6.19% in TFCs and 6.56% in Equities. The strategy remains to lookout for the opportunities with good return at an acceptable medium risk levels.

### ASSET ALLOCATION (%)



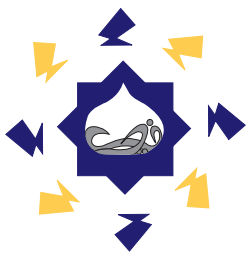
### KIBOR (6 M) vs FIGF



Monthly Returns 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**

**MAY 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	12 <sup>th</sup> 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	12.37%	KIBOR		T-BILLS	R - SQUARE		
YEAR TO DATE	12.84%	1M	13.47%	3M	13.10%	DOWNSIDE DEVIATION	0.02
SINCE INCEPTION	11.57%	6M	13.54%	6M	13.11%		0.00
YTD AVG. MARKET RETURN	1.21%	12M	14.01%	12M	13.10%		

\* Fund Risk figures are based on performances of the last three months only

## MONEY MARKET REVIEW

Money market during the month of May 2009 remained quite volatile and rates witnessed major fluctuations. REPO traded as low as 1.5% and as high as 13.90% during the month. Average overnight clean rates remained in the range of 12.75% - 13.25%. It was witnessed that due to heavy outflows from the system, market remained tight and experienced liquidity crunch. SBP effectively intervened and addressed the liquidity situation in the market through OMOs for different tenors. SBP conducted eight OMOs during May 2009. Seven were used to inject money while one OMO to mop up PKR 15.8 bn. During the month due to the volatility in the money market particularly due to tight liquidity situation 1-Month, 3-Month and 6-Month KIBOR closed at the levels of 13.52%, 13.72% and 13.75% respectively as at May 30, 2009.

SBP conducted two T-Bill auctions during May 2009, the accumulated target of the two auctions was PKR 115 bn and PKR 113.75 bn was accepted against the same. The cut off yield for one year T-Bill was maintained at 13.29% in both the auctions. The issue of 10-year PIB was active in the secondary market. SBP also conducted one PIB auction during May 2009. The auction had a target of PKR 20.0bn and received bids amounting to PKR 46.73bn against which SBP accepted PKR 19.96bn. In line with diminishing inflation expectations in medium to long term, cut off yields across all tenors were reduced between 20-61bps. The maximum cut of 61bps was seen in the 10-year bond, whose cut off yield was reduced from 13.2409% to 12.6303%. The decrease in the cut-off yields in the PIB auction had a spill over effect on the yields of Treasury bills in the secondary market. Market is expecting that reduction in cut off yields is an extension and confirmation of the reversal in the central bank's monetary stance. We are expecting more activities in T-bills and PIBs in the coming months with expected yields to come down.

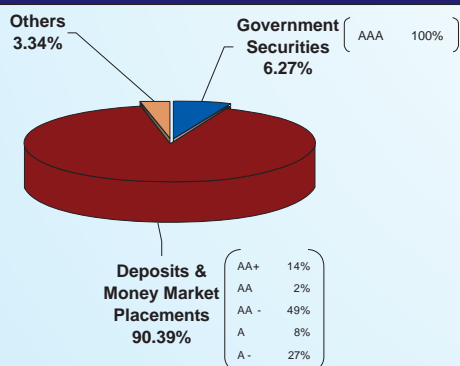
News regarding delay in the IMF tranche has once again shattered market confidence, reflected from latest exchange rate movement, resulting in pressure on Rupee. We believe the panic is exaggerated and IMF is likely to disburse the third tranche as Pakistan has met till now almost all structural and quantitative targets set by IMF. The Federal budget is scheduled to be announced on June 13, 2009. The global economic slowdown will hamper the tax revenue, which is expected to remain short of the target. The major challenge for the government is to improve the business climate, which has suffered on account of both power shortages and contraction in domestic and external demand.

## PERFORMANCE

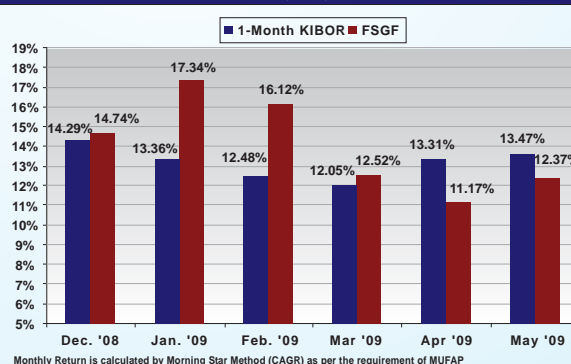
FSGF performed well during May 2009 by giving a MOM (month on month) return of 12.37% as compared to 11.17% last month. The YTD (Year to date) return of 12.84% as compared to average YTD return of its peer group of 1.21%, therefore FSGF again outperformed the peer group by 11.63%.

The asset allocation comprises of 90.39% in Bank Deposits & Money Market Placements and 6.27% in Government Securities. FSGF started May at a NAV/ unit of PKR 100.97 and closed the month at a NAV/unit of PKR 101.91. The strategy will remain to mitigate interest rate risk giving due consideration to the credit quality of the portfolio.

### ASSET ALLOCATION (%)



### KIBOR (1 M) vs FSGF



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