

# FAYSAL ASSET MANAGEMENT LIMITED

COMMITTED TO SETTING NEW STANDARDS IN INVESTMENT MANAGEMENT

**CEO CORNER**  
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## Fund Manager Report Dec '09

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### Dear Investor,

The first half of FY09/10 has ended on a positive note with our investors riding high on the return wave. All three funds under management of FAML have performed well against their benchmarks and the overall industry.

### 6 Month Fund Performance (Jul-Dec '09)

	Fund's Return	Industry Average	Benchmark
FBGF	30.58%	17.86%	20.07%
FIGF	16.16%	8.71%	12.46%
FSGF	11.25%	10.35%	12.54%

The pro-active fund management approach enabled us in optimizing return/yield for the investors. The risk-adjusted return/yield of the funds also highlights the stability as well as the degree of credit quality of the individual fund portfolios.

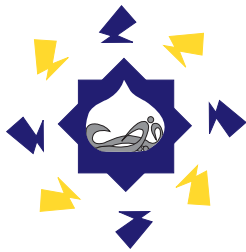
Faysal Funds has entered 2010 in full steam, driven by effective and proactive fund management, risk mitigation, and aggressive goal-setting. Despite the socio-economic setbacks faced by the corporate sector in the past few months, we remained undeterred as indicated by the performance of the funds under management.

The foreign reserves in the country have strengthened and reached around USD 15 Billion. There is also a gradual improvement in the foreign portfolio investment. The equity markets are looking forward to a favorable review for the inclusion in the MSCI emerging market index. The launch of a formalized leverage product can also be a source of stimulus for the equity capital markets.

The economic and financial indicators showed further improvement under the current IMF program as Moody's Investor Services maintained the B3 rating for Pakistan. The impact of food price hike and core inflation will have an adverse impact on the continuation of the current monetary policy stance of the State Bank of Pakistan. The inflationary pressures need to be curtailed further coupled with the continuation of the current monetary policy to provide further stimulus for an economic recovery.

With existing performance in top gear, we plan to widen our product base in the second half of the current fiscal year with innovative additions providing investors an opportunity to create a variety of long-term investment plans. I would like to personally thank you as our valued investor for bestowing your trust in our services and wish you a very Happy and Prosperous 2010!

Salman Haider Sheikh  
Chief Executive Officer



# FAYSAL ASSET MANAGEMENT LIMITED

COMMITTED TO SETTING NEW STANDARDS IN INVESTMENT MANAGEMENT

FAYSAL  
BALANCED  
GROWTH FUND

DECEMBER 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	3 Star by JCR-VIS				
RETURNS		PORTFOLIO CHARACTERISTICS			RISK QUANTS		
MONTH ON MONTH	2.38%	P/E RATIO	7.05x	ALPHA	0.0005	VAR	1.14%
YEAR TO DATE	30.58%	DIVIDEND YIELD	3.34%	BETA	0.5345	R <sup>2</sup>	0.6623
SINCE INCEPTION	67.12%			SHARPE	0.0259	SORTINO	0.0410
BENCHMARK RETURN (MoM)	1.96%			STD.DEV.	0.69%	KURTOSIS	0.9657

## STOCK MARKET REVIEW

The KSE-100 index started this month at a level of 9,206.21 and closed at 9,386.92, up 1.96% for the month. FBGF outperformed the KSE-100 index by 42 bps during this month. Investor interest picked up slightly during the month as Pakistan received the 4<sup>th</sup> tranche of USD 1.2 Bn under the USD 7.6 Bn standby loan agreement with IMF. With this Pakistan's foreign exchange reserves reached around USD 15 Bn. Further, investors expect that the allowing of short selling from 4<sup>th</sup> January 2010 will increase volumes and lead to more pronounced price discovery.

2009 proved to be a good year for the market with the KSE-100 index giving a return of almost 60% after a dismal 2008 where the market fell by almost 58%. Oil, power and fertilizer sectors proved to be the major index drivers due to strong fundamentals, weak PKR, strong international commodity prices especially oil, attractive dividend yields and strong growth in the agriculture sector.

After exclusion of Pakistan from MSCI emerging market index, heavy foreign selling was witnessed. However, following the inclusion in MSCI frontier market index and the rebound in international equity markets, foreign investors' risk appetite increased and buying interest was seen by foreigners in the second half of 2009. According to the data provided by NCCPL, foreigners during 2009 bought shares worth PKR 87.92 Bn and sold shares worth PKR 85.02 Bn, thus resulting in net buying of PKR 2.89 Bn (USD 24 Mn).

The State Bank of Pakistan (SBP) continues to monitor inflation very closely and interest rates can be expected to ease once government borrowing slows down, as the government tries to enhance its revenue base by expanding the tax net. However, we believe that SBP will keep interest rates at the current level in the coming monetary policy due to increase in gas and electricity charges.

We believe that improvement in the economic and political environment of the country will lead to more foreign portfolio inflows. Further if Pakistan is once again included in the MSCI emerging market index in the coming review, more flows will be directed towards the local equity markets. This coupled with low interest rates, stable currency and improvement in law and order situation can create a bull run in the index. However, one cannot rule out a cautious stance as capital gains tax, political fall out and deterioration in the law and order situation can prove to be dampeners.

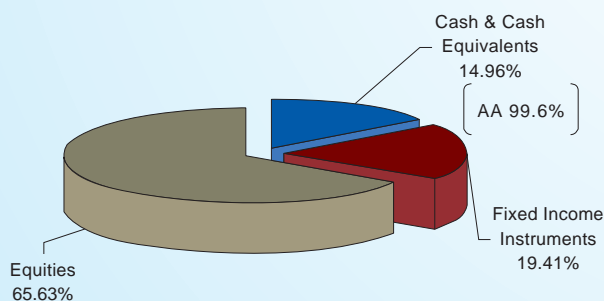
## PERFORMANCE

FBGF started December at a NAV/unit of PKR 96.93 and closed the month at a NAV/unit of PKR 99.24, up 2.38% on a Month on Month (MoM) basis. In comparison FBGF's benchmark gave a return of 1.96% for the month of December. On a year to date (YTD) basis FBGF gave a return of 30.58%.

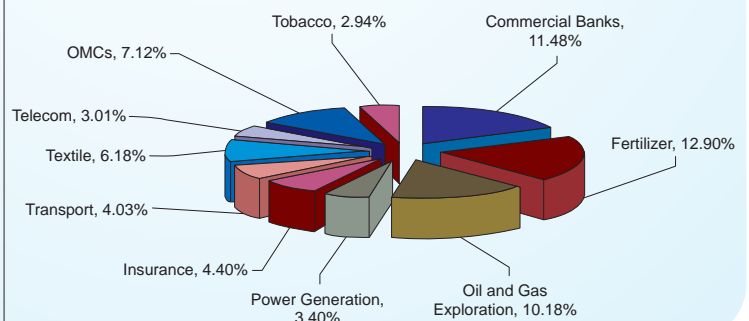
Comparing FBGF to its peer group, FBGF outperformed the average return of the peer group by 263 bps (basis points) as the average peer group return for the month was -0.25%. The average return of balanced funds on YTD basis was 17.86% where FBGF again outperformed the average return by 1272 bps (12.72%).

On the asset allocation side exposure in equities was increased to 65.63% from previous month's level of 44.40% due to expected increase in GDP growth, improving law and order situation and expectations of better than expected corporate results. Allocation in other asset classes was more or less maintained at last month's level.

### ASSET ALLOCATION (%)

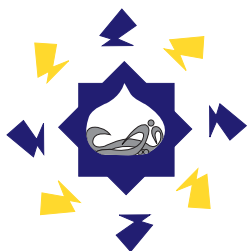


### SECTOR ALLOCATION (%)



#### Risk Disclosure:

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# FAYSAL ASSET MANAGEMENT LIMITED

COMMITTED TO SETTING NEW STANDARDS IN INVESTMENT MANAGEMENT



DECEMBER 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+(f) by JCR-VIS					
RETURNS		MONEY MARKET RETURNS				RISK QUANTS			
MONTH ON MONTH	17.24%	KIBOR		T-BILLS		ALPHA	0.0004	VAR	0.22%
YEAR TO DATE	16.16%	3M	12.37	3M	12.14	BETA	-0.0114	R <sup>2</sup>	0.0029
SINCE INCEPTION	10.81%	6M	12.44	6M	12.15	SHARPE	0.0263	SORTINO	0.0407
YTD AVG. MARKET RETURN	8.71%	12M	12.80	12M	12.14	STD.DEV.	0.14%	KURTOSIS	1.8390

## ECONOMIC OUTLOOK

Economic indicators moved largely on the right track under the IMF Standby Arrangement. Moody's Investors Services maintained Pakistan's B3 rating which reflects a gradual stabilization of its economic and financial strength. The country's growth downturn is bottoming out, and its near-term external liquidity has improved. On the external front, we witnessed stability as reserves grew from \$10bn in Jan09 to close at near \$15bn by Dec09. Results in rupee-dollar parity also remained stable as Pakistan received \$1.2bn (fourth tranche) from IMF under stand-by arrangement facility.

The country's overall imports stood at \$12.38bn and exports at \$7.7bn registering a trade deficit of \$4.7bn during first five months of current fiscal year. However, the current account deficit posted a decline of 81% in the first five months of current fiscal year, mainly due to the higher home remittances and sharp decline in trade deficit. Remittances showed an increase of \$866mn (29%) in November09 to \$3.83bn in first 5MFY10.

The CPI inflation once again moves into double digits, 10.26%, during the first 5MFY10 mainly on the back of increase in the prices of food commodities and the discontinuation of low base effect. The government announced an 18% hike in gas tariff and a 13.6% rise in power tariff from January 09 onwards; making the inflation target of 9% for FY10 unlikely to achieve.

Foreign direct investment (FDI) declined by 52.2% during the first 5MFY10 as compared to the same period of last year. This decline was due to the prevailing law and order situation, energy crisis and political uncertainty. The FDI during July-November 2009 declined to \$774mn as compared to \$1.6bn for the same period last year. During the period, the government borrowing also increased due to rising expenditure and shortfall in revenue.

The Large Scale Manufacturing (LSM) during the first quarter (July-September) of 2009-10 registered a negative growth of 0.65% as compared with the same period last year. Similarly, LSM growth during September 2009 also shrank by 2.64% over September 2008. Industrial production posted positive growth of 0.85% while petroleum related products reported decline of 11.14%.

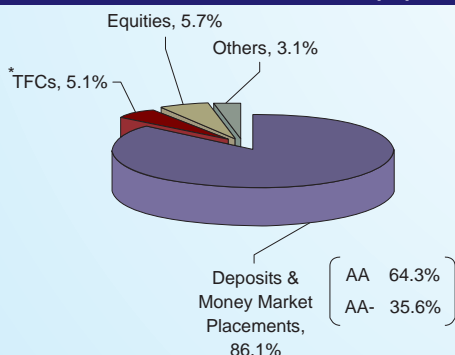
Going forward, SBP have to remain cautious due to shifting the entire load of oil import payment of around \$10 billion to the private sector, as well as uncertainty over receipt of foreign inflow from FoDP can adversely impact the Rupee-Dollar parity and balance of payment.

## PERFORMANCE

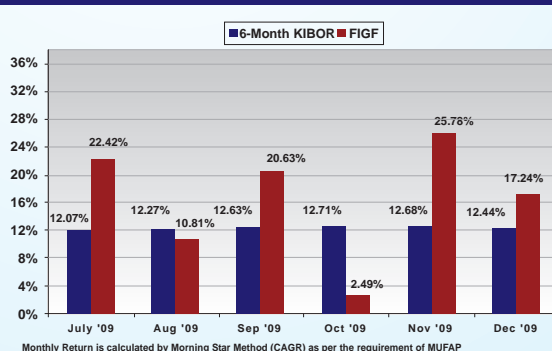
FIGF performed commendably during the month of December by giving a MoM return of 17.24% as compared to its benchmark return of 12.44%, thus outperforming the benchmark by 4.8%. YTD (year to date) return was at 16.16%.

FIGF started December at a NAV/unit of PKR 104.70 and closed the month at a NAV/unit of PKR 106.17. On the asset allocation side, we would like to inform our valued investors that our fund is quite liquid, with portfolio spread 86.1% in Deposits & Money Market placements, 5.1% in TFCs and 5.7% in Equities. The strategy remains to lookout for opportunities with good return at acceptable risk levels.

### ASSET ALLOCATION (%)



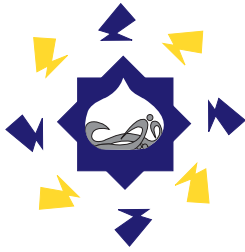
### KIBOR (6 M) vs FIGF



\* FIGF has a 16% exposure in AA- rated TFC and 9% in BBB rated TFC. The third TFC's ratings are currently awaited.

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# FAYSAL ASSET MANAGEMENT LIMITED

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**FAYSAL SAVINGS GROWTH FUND**

DECEMBER 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 <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(f) by JCR-VIS						
RETURNS		MONEY MARKET RETURNS				RISK QUANTS			
MONTH ON MONTH	10.13%	KIBOR		T-BILLS		ALPHA	0.0004	VAR	0.07%
YEAR TO DATE	11.25%	1M	12.44	3M	12.14	BETA	-0.0047	R <sup>2</sup>	0.0348
SINCE INCEPTION	11.56%	6M	12.44	6M	12.15	SHARPE	0.1967	SORTINO	0.5960
YTD AVG. MARKET RETURN	10.35%	12M	12.80	12M	12.14	STD.DEV.	0.04%	KURTOSIS	6.5159

## MONEY MARKET REVIEW

Money market during December was relatively stable along with a better liquidity situation contrary to market expectations of seasonal outflow pressure and liquidity concerns due to the year end of banks and DFIs. The SBP is continuously focusing on efficient and proactive liquidity management. SBP effectively intervened and addressed the liquidity situation in the market through OMOs for different tenors. We believe that the market liquidity will ease out in the short term, reflecting the liquidity situation at year end. KIBOR rates across 1month, 6 months and 1 year tenors closed at the levels of 12.46%, 12.43% and 12.80% respectively as at December 31, 2009.

SBP also conducted T-Bill auctions during the month, banks showed significant interest in T-Bills, as they wanted to invest in AAA rated liquid papers with good yield in the declining interest rate scenario. The market is expecting more rate cuts and also a reduction in the CRR (Cash Reserve Requirement) in FY10. However the pressure on inflation in terms of increasing gas and electricity charges and upside risk to international oil prices are still looming over the economy, which may force SBP to remain cautious in easing its monetary stance.

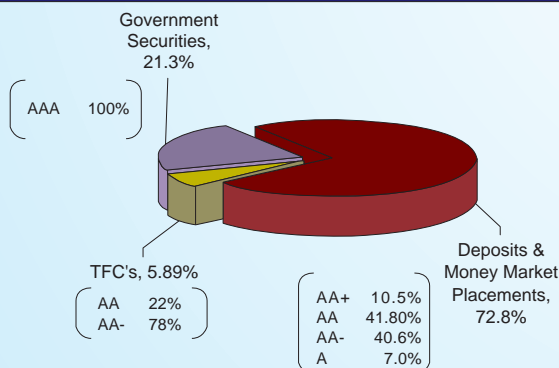
The high demand for government securities in general is being driven by the banking sector's reluctance to lend to the corporate sector. As per the Treasury bill auction calendar released by the SBP, the GoP has set a target of PKR 430 bn against maturities of PKR 398 bn for 3QFY10. Pakistan received \$1.2bn tranche from IMF under Stand-by arrangement facility; foreign reserves have a positive change with this inflow and investors' confidence will be restored. Looking ahead, we expect private sector credit growth to pick up in 3Q FY10. However, gas and power supply issues and slow economic recovery builds up pressure on corporate sector earnings going forward. The major challenge now is to improve the business climate, which has suffered on account of power shortages, law and order situations and contraction in domestic and external demand.

## PERFORMANCE

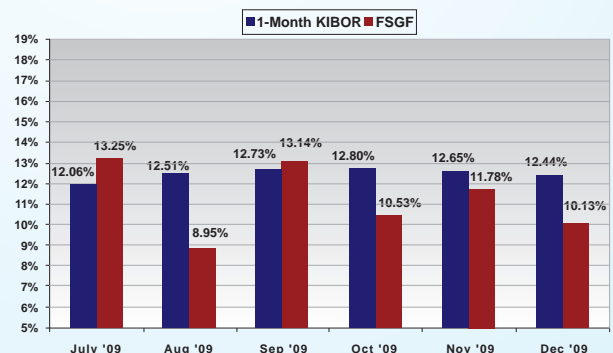
FSGF sparkled and outperformed the peer group by 0.9% during the month of December by giving YTD (Year to date) return at 11.25% as compared to average YTD return of its peer group of 10.35%. MoM (month on month) return was at 10.13%. FSGF started December at a NAV/ unit of PKR 102.11 and closed the month at a NAV/unit of PKR 102.95.

On the asset allocation side, despite redemption pressure in the market during the month, the deposits and money market placements (as a percentage of net assets) increased from 62.79% to 72.8% due to the Management's smart projection of investment/ redemption cycle and proactive approach without placing any pressure on the Fund's liquidity. FSGF has a 21.3% exposure in Government Securities while the portfolio has been slightly diversified to take an exposure of only 5.89% in AA rated TFCs having a fixed rate of return in the declining interest rate scenario. The strategy remains to mitigate interest rate risk and give due consideration to the credit quality of the portfolio.

## ASSET ALLOCATION (%)



## KIBOR (1 M) vs FSGF



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