FAYSAL ASSET MANAGEMENT LIMITED

COMMITTED TO SETTING NEW STANDARDS IN INVESTMENT MANAGEMENT

Fund Manager Report

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Investment Diversification – Key to Long-Term Success

The fiscal year 2007-2008 clearly indicated a slow down in the growth of the country's economic fundamentals. This slowdown was also witnessed internationally as the global economic slow down was initiated due to several factors. These factors include the housing and financial market crisis in the U.S. & Europe with trickle down effects reverberating on certain Asian economies. The rise in international Oil prices also initiated rise in global commodity prices and overall inflation. The rising inflationary pressure further impacted upward momentum in the interest rates in Pakistan. This decrease in broad money supply (M2) reduced buying euphoria in domestic equity capital market; however augmented yields across fixed-income asset classes.

Thus Investors with balanced and risk-averse portfolios were not negatively impacted due to sharp retardation in the equity market capitalization levels. Nevertheless this downward spiral in our equity markets was matched across the globe towards the end of the fiscal year 2007-2008.

The Real GDP growth was recorded at 5.8% in FY08 as compared to 6.8% in FY07. The average rate of economic growth in the country has been 6.6% in the past 5 years. The per capita income increased at an average rate of 13.5% per annum during the last 6 years rising from $586 in FY03 to $1085 in FY08. The main factor responsible for this sharp rise in per capita income includes acceleration in exports, Aggregate Investment to GDP Ratio, Aggregate Consumption to GDP ratio, cumulative Real GDP growth rates complimented by a stable nominal exchange rate, rising public finances (which as of date have crossed the Rs. 1 trillion mark) and a sharp increase in the inflows of workers' remittances. Total foreign direct investment during the first eleven months in FY08 witnessed a decrease of 37.2% recorded at $3943.3 million. The foreign direct investment stood at $3,881 million in the first eleven months of FY08 against $4,520 million for the same period in FY07 indicating a decline of 14.1%. The special rupee convertible account (SCRA) was recorded at $232.11 million for FY08. The amount of remittances received was $5.9 billion. The economy witnessed a trade deficit of $18.75 billion. These economic indicators are indicating a net slow down in the economic growth due t o both internal and external factors.

The recent macro economic upheavals have contributed to the slow down, which concurrently got priced into the value of scrips listed on the KSE-100 index; hence the latter declined by 10.77% for the year. The market capitalization of the KSE on June 30th FY08 was recorded at Rs. 3,778 billion and the average turnover per day was recorded at 238 million shares. We also witnessed a sharp increase in the discount rate towards the end of FY08 along with other monetary policy tightening measures to curtail inflation. These actions pushed the interest rates higher and average 6-month KIBOR was recorded at 10.49% for the fiscal year.

Faysal Asset Management completed another successful year with over 55% growth in AUMs and 60% growth in net earnings and 45% growth in the number of investment clients indicating high level of trust in our products and services. The funds under management showed superior growth with respect to the average market performance and its benchmarks. The dividends for the fiscal year indicate this performance yet again and we thank all our investors and promise to work hard in achieving the investment objectives by providing superior risk-adjusted returns and quality services.

Funds	Annual Dividend	Average Market Return*
FBGF	3.4%	1.31%
FIGF	10%	9.41%
FSGF	10%	9.60%

* Average Annualized YTD returns of Balanced Equity, Fixed Income and Money Market Funds

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FAYSAL BALANCED GROWTH FUND

FINANCIAL YEAR 2008

Investment Objective

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 Information

Fund Type	Open Ended-Balanced Fund	Registrar	Gangjees Registrar Services (Pvt) Ltd.
Fund Launch Date	19th April 2004	Trustees	Central Depository Company Of Pakistan
Performance Benchmark	*KSE-100 INDEX/ 6 M KIBOR	Auditors	Ford Rhodes Sidat Hyder & Co., Chartered Accountanats
Ranking	4 Star by JCR-VIS		

Returns		Portfolio Characteristics	
Month On Month	3.06 %	P/E Ratio	9.6 %
Year To Date	-0.09 %	Dividend Yield	4.2 %
Since Inception	68.40 %		
Since Inception Ann. Return	16.27 %		

*Proportional investment percentages in KSE-100 INDEX and 6M KIBOR

Stock Market Review

The Pakistani capital market saw a very volatile year. This contribution of semi - variance to total volatility during the first half of the year was not due to deteriorating fundamentals or poor corporate earnings but the reason was the changing political environment, poor law and order situation and fear of global recession, which jointly checked positive investor sentiment from gaining in terms of buoyancy. The KSE-100 index gave a return of 2.20% during the first half of the year. U.S economic recession fears put further pressure on the markets around the globe and created the question mark on long-term growth sustainability of the capital markets. Increase in international oil prices also added to the momentum of investor woes along side the other negative price risk developments taking place on the commodity front.

To counter this inflation and the continuous increase in food prices State Bank of Pakistan (SBP) increased the discount rate twice thus dampening the investors' sentiment and causing growth momentum to slow down. This will definitely cause industrial growth to slow down as raising debt and equity to finance industrial expansions will become expensive. Also due to the increase in international oil prices input costs have increased which is translating into higher prices thus slowing consumer driven growth. In our view, a stimulating policy is significantly & positively correlated with strong funds flow from international markets into emerging markets. Thus with valuations significantly cheap relative to the Asian region and moderate economic growth, creates a strong case for the KSE-100 Index at 11,500-12,000 levels.

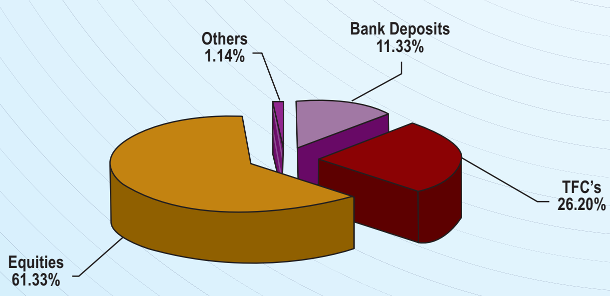
Better-expected corporate results, increasing trend in prices of cement, gas wellhead and fertilizers are the catalysts for the market to perform going forward. The current level of the market requires caution. With rising inflation, depreciating currency, and increasing current account and trade deficit a slight increase in the discount rate towards the first half of FY' 08-09 cannot be ruled out.

Performance

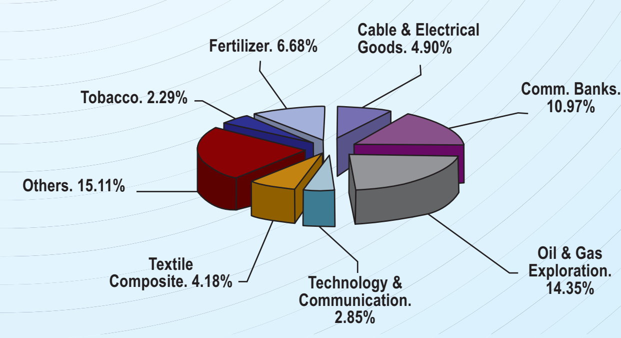
FBGF started this year at a NAV of PKR 103.49 and closed at a NAV of PKR 101.80, thus giving a negative return of 0.09% on a Year to Date (YTD) basis. FBGF also announced a full year profit payout of 3.4% for its shareholders during the year. For the year ending June '08 the KSE-100 index gave a negative return of 10.77% thus FBGF outperformed the KSE 100-index by a staggering 10.68% which shows the management's proactive and prudent approach towards safe guarding our investors' interest. FBGF beat its performance benchmark as well by 2.40% on a YTD basis as the benchmark gave a negative return of 2.49% for the full year.

For the month of June the KSE-100 index gave a return of 1.31% while FBGF gave a return of 3.06% thus showing out performance on Month on Month (MoM) basis as well. FBGF also outperformed its performance benchmark on MoM basis as the benchmark gave a return of 1.25% for the month, thus out performing the benchmark by 1.81%. FBGF ended this year with a since inception return of 68.40% which translates into 16.27% on annualized basis.

Average Asset Allocation FY 07-08 (%)



Average Sector Allocation FY 07-08 (%)



FAYSAL ASSET MANAGEMENT LIMITED

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Faysal income & Growth Fund

FINANCIAL YEAR 2008

INVESTMENT OBJECTIVE

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 INFORMATION

FUND TYPE	Open Ended-Income Fund	REGISTRAR	GANGJEES REGISTRAR SERVICES (PVT) LTD.
FUND LAUNCH DATE	10th October 2005	TRUSTEES	CENTRAL DEPOSITORY COMPANY OF PAKISTAN
PERFORMANCE BENCHMARK	6 Month KIBOR	AUDITORS	FORD RHODES SIDAT HYDER & CO., CHARTERED ACCOUNTANATS
RATING	A+ by JCR-VIS		

RETURNS		PORTFOLIO CHARACTERISTICS			
MONTH ON MONTH	12.77 %	KIBOR		T-BILLS	
YEAR TO DATE	9.94 %	3M	13.88 %	3M	11.41 %
SINCE INCEPTION	11.40 %	6M	14.19 %	6M	11.49 %
MOM AVG MKT RETURN	9.00 %	12M	14.47 %	12M	11.73 %

MONEY MARKET REVIEW

The overnight money market closed on the average of 10.68% during the month of June, 2008, however the liquidity crunch in the last month was observed mainly due to the building of balance sheets and to maintain CRR & SLRs. Financial institutions were eager to borrow even at higher rates to cover their positions, while lending institutions made profits on short duration deposits.

SBP in accordance with its contractionery monetary policy stance drained excess liquidity from the system during the month of June amounting Rs.181.5bn, Rs.67bn, and Rs.4.3bn through OMOs, T-bills and PIBs auctions respectively. This fiscal year observed a bumpy ride in interest rates as within 6 months SBP raised discount rate by 200 bps and there are chances of further tightening to stem PKR depreciation against USD as well as inflation.

In the first 6 months of this fiscal year, SBP accommodated the money market levels by keeping liquidity supply stable, which also checked the gradual rise in the shorter end of the yield curve. Nevertheless a large segment of the money market funds anticipated a 50bps (basis points) yield hike was in the offing; hence short and medium term liquidity was re-allocated by the industry towards floating rate instruments and to some extent even into local sovereign paper markets.

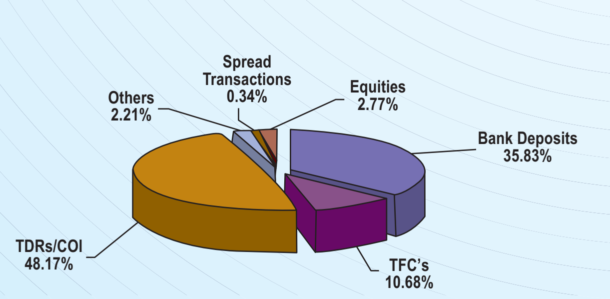
The State Bank of Pakistan accepted bids at higher cut-off yields on Pakistan Investment Bonds (PIBs) as rates jumped upwards due to secondary market yields as well as downward ratings by Moody and S&P. Coupon rates remained at previous levels set by SBP. However, despite inducing investors towards PIBs, the institutional response lacked book-building spirit for the paper on offer. Resultantly the State Bank mopped up much lower amounts to meet borrowing requirements in comparison against instruments used in similar roles as the NSS.

The cut-off yield on the longer end benchmark i.e. the 10-year bond was set at 13.42% against the previous cut-off yield of 11.44%, showing an increase of 198 bps. The SBP has been advising and advocating jumbo auctions of PIB's to make it an alternative borrowing resource for the government instead of relying on direct mechanisms of borrowing from SBP. There is no match between the figures of borrowing through PIBs and SBP as the government borrowed over Rs.651 billion from SBP till mid June.

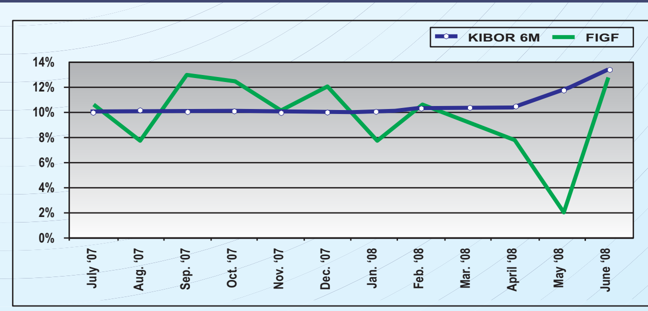
PERFORMANCE

FIGF outperformed by yielding 9.94% return for FY'08 as compared to its peer group's average annualized return of 9.41%, leading by 53bps for the year. FIGF also outperformed the income funds during June by achieving 12.77% annualized return. FIGF attained since inception annualized returns of 11.40%. This month FIGF started at Rs.102.35-NAV and closed at Rs.103.43. On the asset allocation side exposure in TDRs/COIs, equities and TFCs increased to 62.58%, 3.62% and 3.14% respectively while exposure to Bank Deposits and others reduced to 29.40% and 1.25% respectively.

AVERAGE ASSET ALLOCATION FY 07-08 (%)



KIBOR (6 M) vs FIGF



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FAYSAL SAVINGS GROWTH FUND

FINANCIAL YEAR 2008

Investment Objective

FSGF seeks to 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 Information

Fund Type	Open Ended-Money Market Fund	Registrar	Gangjees Registrar Services (Pvt) Ltd.
Fund Launch Date	7th May 2007	Trustees	Central Depository Company Of Pakistan
Performance Benchmark	1 Month KIBOR	Auditors	Ford Rhodes Sidat Hyder & Co., Chartered Accountanats
Rating	A by JCR-VIS		

Returns		Portfolio Characteristics			
		Kibor		T-bills	
Month On Month	10.67 %	3M	13.88 %	3M	11.41 %
Year To Date	9.97 %	6M	14.19 %	6M	11.49 %
Since Inception	10.27 %	12M	14.47 %	12M	11.73 %
MoM Avg Mkt Return	9.08 %				

Money Market Review

This month observed a liquidity crunch even though the inter-bank money market closed on the average of 10.68%. Banks, DFIs and investment banks were eager for borrowing over the period of 3 months at higher rate. The exacerbated impact of rising yield is mainly due to the DR (discount rate) adjustment to the tune of 150bps. Heavy redemptions were observed in mutual funds across the board whose role remains instrumental in trading of money market investments as of today.

The situation alerted the mutual funds industry to build a firewall for their portfolio mix to meet the challenge of upward interest rate momentum. The dilemma of managing their financial book on short-term basis and have more liquidity on one hand, and on the other hand continuing to provide a hedging mechanism to their investors from any unanticipated losses.

On July 2, 2008 the State Bank of Pakistan sold treasury bills worth Rs. 76.844 billion for roll over as well as to mop us any surplus liquidity in the market. At the same time, the SBP siphoned off more liquidity through open market operation (OMO) to keep the banks on a tight rope. The SBP had announced to sell T-bills worth Rs.80 billion and succeeded to sell Rs76.8 billion. However, most of the T-bills bids were made for three months duration only, signaling a rising yield curve.
The SBP did not receive offers for benchmark 6-month T-bills which was an indication that banks were not in a mood to engage their money for a longer period. The central bank sold only Rs1.989 billion for 12-month T-bills.

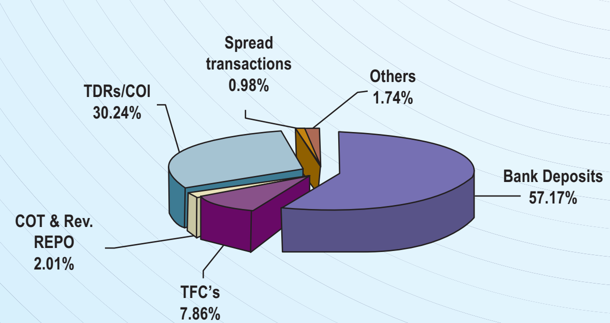
Following withdrawals of subsidies and the recent record surge in the prices of petrol, diesel, gas and electricity, the food inflation has touched the highest ever mark in Pakistan, taking a giant leap from 11.3 % in May last year to above 30 percent in June, 2008. The delay in wheat import will further push the food prices upward. This situation is dampening investor sentiment by raising possibility of further rate hikes to counter inflationary pressures.

Hence, further hike in interest rate is expected in the near future, mainly due to nominal currency depreciation and highest ever inflation (WOW - CHG%) statistics in the economic history of the country. The oil price has already touched its all time high level at $ 146 a barrel due to long positions taken by hedge fund investors on CBOT (Chicago Board of Trade) and other global commodity derivative counters, not withstanding the possibility of occurrence of certain exogenous shocks that are already getting priced into the value of this precious commodity. Notable is the possibility of US allied forces making any military postering towards Iran. The impact of such international political policies may take oil prices to unprecedented price levels. Last but not the least impact of such negative externalities may not go untold against the broader world financial market; which includes both developed and emerging market economies.

Performance

FSGF performance was well above its contemporaries as FY'08 returns were 9.97% as compared to peer's average annualized return of 9.60%, a clear out performance by 37 bps in the last year. FSGF also performed well during the last month and by attaining 10.67% annualized return on MoM (month-to-month) basis. Its since inception annualized return stood at 10.27%. This month FSGF started at Rs.102.62-NAV, while closing at Rs.103.55-NAV. On the asset allocation side exposure in TDRs/COIs and Bank Deposits increased to 51.35% and 41.37% respectively while exposure in TFCs, COT & Rev. Repo and others as well as spread transaction decreased to 1.14%, 3.99%, 1.16% and 0.99% respectively.

Average Asset Allocation FY 07-08(%)



KIBOR (1 M) vs FSGF