

FAYSAL ASSET MANAGEMENT LIMITED

COMMITTED TO SETTING NEW STANDARDS IN INVESTMENT MANAGEMENT

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Fund Manager Report

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Buy & Hold : An Intelligent Strategy?

We have witnessed deteriorating economic fundamentals across the globe resulting in the slow down of global GDP. This coupled with high international oil and commodity prices produced a dampening effect on the consumer confidence in the U.S. This consumer confidence level will negatively impact the export-oriented growth of the Asian economies. These factors resulted in the exit of large international fund managers from the emerging equity markets. The emerging markets of China, India, Vietnam and Pakistan are some of such examples. These emerging markets have declined by over 40% from their peak level in just a few months. The investors need to question the traditional strategies of "Buy & Hold" and "Investment Diversification".

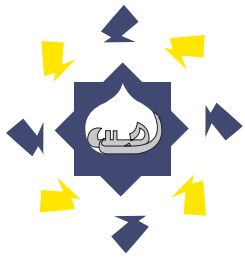
We covered the Investment Diversification in the previous report. Today we have to analyze the long-term capital appreciation strategy of "Buy & Hold". Does it actually work in an emerging market? The answer is Yes, as long as the inherent risk is understood. It has been proven through empirical research that market risk of an asset decreases as its holding period increases. Thus long-term investors should adopt a passive indexing strategy to increase return over investment horizon.

Let's compare China & India with Pakistan. The Shanghai SSE composite Index has declined by 64% from its peak in almost eight months but it is still up by 106% as compared to the levels of 3 years ago. The Bombay BSE Sensex has declined by almost 32% from its peak of 21,206 points in almost seven months but is indicating a positive return of 87% from the level of 3 years ago. The Karachi KSE-100 index has witnessed a decline of over 40% from its peak but is indicating an 18% gain when compared to the level of index attained 3 years ago.

We witness similar trends in the Nikkei, Hang Seng, Straits Times, Taiwan Weighted and Vietnam equity markets. Similar trends can be witnessed in the European and American equity markets due to the sub-prime credit problems leading to a global financial mayhem.

The long-term comparison when plotted over 3 and 5 years indicates further gains and growth thus leading to the validity of the "Buy & Hold" strategy. Now it is imperative for the investors to understand the risk associated with these investments over long run. Here the investment diversification rule comes in handy which can be achieved with the right balance of various asset classes in the portfolio.

The investors are encouraged to study the long-term capital appreciation trend of equity funds in the mature economies. The trend clearly corroborates the "Buy & Hold" strategy in good equity mutual funds with proper diversification in several asset classes and an active portfolio management.



FAYSAL ASSET MANAGEMENT LIMITED

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FAYSAL
BALANCED
GROWTH FUND

AUGUST 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 ACCOUNTANTS | |
| RANKING | 4 Star by JCR-VIS | | | |
| RETURNS | | PORTFOLIO CHARACTERISTICS | | |
| MONTH ON MONTH | -11.07 % | P/E RATIO | 7.42 % | |
| YEAR TO DATE | -20.07 % | DIVIDEND YIELD | 5.22 x | |
| SINCE INCEPTION | 34.60 % | | | |
| SINCE INCEPTION ANN. RETURN | 7.05 % | | | |

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

STOCK MARKET REVIEW

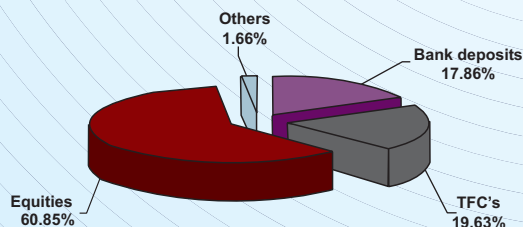
The economy continued with its dismal performance with visible signs of slow down in industrial and services sectors, dragging the KSE-100 index down with it yet again for another month. The market closed down 12.99% for the month with the index starting the month at a level of 10,583.58 and closing at 9,208.26 level. Even the quarterly results announced by the companies failed to revive the investor sentiment and continued selling was witnessed across the board. Pakistan government debt became the riskiest this month as the cost of default protection on Pakistan's government bonds overtook Argentina's amid political and economic turmoil that is threatening Pakistan's ability to repay lenders. Heavy selling by foreign investors in local equity market was also seen during the month as they continued dumping due to deteriorating economic conditions and extremely slow response from the coalition government to take remedial steps. Rupee continued its worst slide ever against the USD (around -18% CY08) due to declining foreign exchange reserves. Worsening balance of payment has been the main culprit behind the continuous depreciation of PKR against the USD. This trend is likely to continue unless we witness some inflows that will improve the balance of payments. Exploration sector is a likely hedge against the depreciating PKR and increasing international oil prices. The recent freeze on the index by the KSE will in our view further shake foreign investors' confidence and we might see further downside in the index once the freeze is removed as this has left foreign investors vulnerable because of lack of exit opportunities. After all putting a cap on downside is very much an indication that there is still more downside to come.

We maintain our cautious stance on the market as we feel that under the current scenario of weakening economic conditions the State Bank of Pakistan will continue with monetary tightening measures in order to curb inflationary pressures. If this happens we can see further downside pressure in the equity markets.

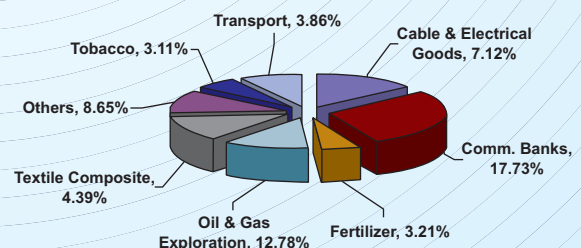
PERFORMANCE

FBGF started August at a NAV of PKR 89.88 and closed the month at a NAV of PKR 79.93. Thus FBGF gave a negative return of 11.07% for the month. In comparison the stock market gave a negative return of 12.99% for the month of August. Hence FBGF outperformed the KSE-100 index by 1.92%. FBGF's benchmark gave a negative return of 6.34% for the month of August. The average return of open-ended Balanced and Asset allocation funds excluding FBGF for the month of August was negative 9.81%. On the asset allocation side FBGF increased exposure in equities to 60.85% from previous month's level of 49.31%.

ASSET ALLOCATION (%)

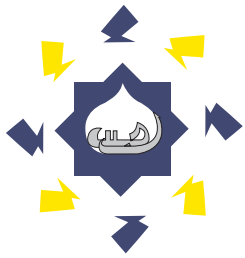


SECTOR ALLOCATION (%)



Risk Disclosure:

All investments in mutual funds and securities are subject to market risks. Therefore, the NAV based prices of units cannot be guaranteed. Price of unit and any dividends and returns thereon may go up or down based on market conditions & past performance of the fund is not necessarily indicative of future results. Please consult your legal/financial advisor & read clause 2.6 and 2.7 of the offering document available at our web site for understanding the investment policies & risks.



FAYSAL ASSET MANAGEMENT LIMITED

COMMITTED TO SETTING NEW STANDARDS IN INVESTMENT MANAGEMENT

Faysal
Income & Growth Fund

AUGUST 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 ACCOUNTANTS | |
| RATING | A+ by JCR-VIS | | | |
| RETURNS | | PORTFOLIO CHARACTERISTICS | | |
| MONTH ON MONTH | 3.20 % | KIBOR | | T-BILLS |
| YEAR TO DATE | 4.92 % | 3M | 13.34 % | 3M 12.39 % |
| SINCE INCEPTION | 10.12 % | 6M | 13.57 % | 6M 11.47 % |
| MOM AVG MKT RETURN | 11.50 % | 12M | 14.03 % | 12M 11.83 % |

ECONOMIC OUTLOOK

During the month under review, The Government and the Central Bank of Pakistan announced a much needed strategy to curb the import of nonessential luxury items in order to reduce the overall quantum of imports and to narrow the trade gap which has had an adverse impact on Pakistan's foreign exchange reserves particularly since last few months.

Pakistan's macroeconomic imbalances are still not in control besides the ongoing fiscal and monetary adjustments. The significant decline in the current account deficit in the last few months is also one of the major reasons. On the other hand, food inflation primarily exists due to lower production and overall inflation in food prices internationally.

The energy items contributing considerably higher share during the current period towards inflation. The overall economic slowdown and a substantial increase in commodity prices, depreciation of Pak rupee against Dollar may further influence the Pakistan's economic imbalances in the coming months.

The current persistent outflows results in depletion in the country's Forex reserves. The current situation is clearly unsustainable in the medium term. The risks of downward revision of Pakistan sovereign rating is also a major threat.

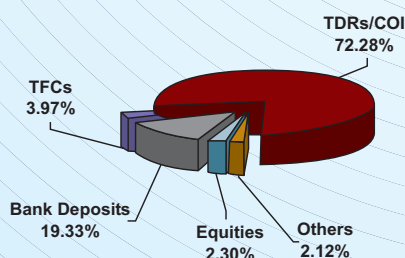
However we should also understand that it is not only Pakistan that is facing serious political and economic problems but the overall difficult global economic situation is deteriorating economies of a number of countries in the World. We are positive that the government is keen and trying to address the situation at its level best. The government has been making efforts to sell assets through privatization to earn foreign exchange and to pay the import bill, apparently investors are shy to invest in Pakistan due to the current law and order and economic crisis.

PERFORMANCE

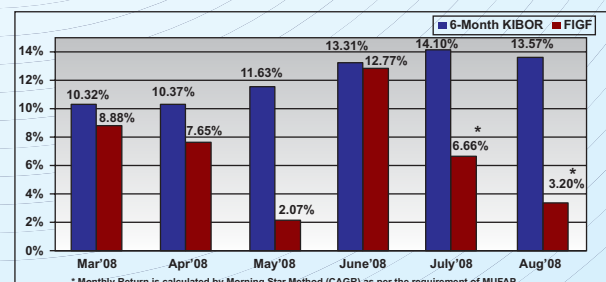
FIGF performed well despite political and economic problems and dull activities due to lower volumes in the equity market during the month by giving a MOM (month on month) return of 3.2% and YTD (Year to date) return of 4.92%.

The closing NAV of FIGF was Rs. 100.91 as compared to the opening NAV of Rs. 100.64. The portfolio of bank deposits increased to 19.93% and TDRs/COIs decreased to 72.28% as compared to 13.03% and 78.00% respectively in the last month. The strategy is to lookout the avenues that provide the maximum return to help in increasing the portfolio yield at acceptable risk tolerance levels.

ASSET ALLOCATION (%)

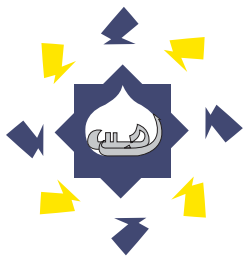


KIBOR (6 M) vs FIGF



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FAYSAL SAVINGS GROWTH FUND

AUGUST 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 ACCOUNTANTS | | | |
| RATING | A by JCR-VIS | | | | | |
| RETURNS | | | PORTFOLIO CHARACTERISTICS | | | |
| MONTH ON MONTH | 11.52 % | KIBOR | | T-BILLS | | |
| YEAR TO DATE | 11.11 % | 1M | 12.96 % | 3M | 12.39 % | |
| SINCE INCEPTION | 10.32 % | 6M | 13.57 % | 6M | 11.47 % | |
| MOM AVG MKT RETURN | 11.43 % | 12M | 14.03 % | 12M | 11.83 % | |

MONEY MARKET REVIEW

The SBP had announced PIB auction on Aug 29, 08 in which the government has planned to raise Rs. 20bn. However, participation remained very low at Rs. 6.19bn from which the SBP has accepted bids of Rs. 3.18bn. PIB auction was quite important as the coupon rates in the auction had increased significantly by the government.

Presently, the bond market lacks investor interest as real interest rates are persistently in the negative zone. Other factors affecting the market are depreciating PKR against USD and high government borrowing in order to finance fiscal deficit. These factors have led to the weaker sentiment in the bond market, which is tilting the yields upwards.

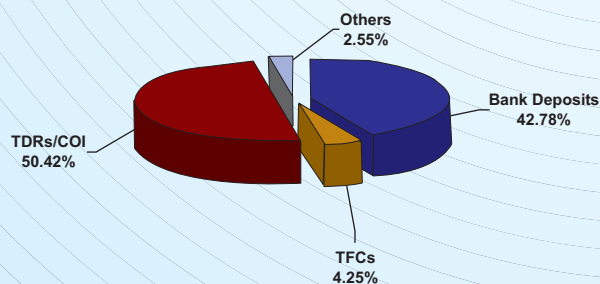
In our opinion, weak economic outlook contributed towards lower participation in PIBs. We expect the sentiment of the participants in the fixed income market would improve as domestic inflation normalizes along with economic and political stability.

CFS activity was dull due to lower volumes in the equity market but the average rates were 14% (aprox) during the month due to tight liquidity position and market risk factors.

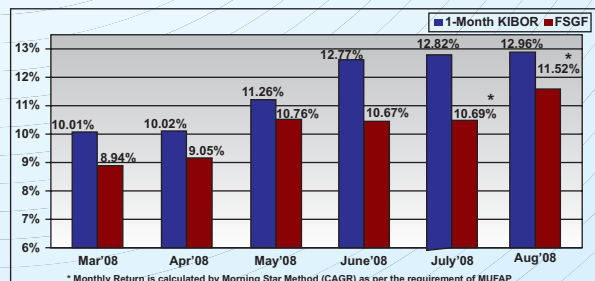
PERFORMANCE

FSGF performed very well during the month under review and beat its peers in the industry by giving a MOM (month on month) return at 11.52% as compared to MOM average market return at 11.43%. The YTD (Year to date) return was 11.11% and return of 10.32% since its inception. This month FSGF started at Rs. 101.03- NAV, while closing at Rs. 101.97-NAV. Asset allocation exposures in TDRS/ COIs increased to 50.42% from 43.28% and bank deposits decreased to 42.78% from 51.18%. The strategy will remain to maintain short term portfolio to mitigate interest rate risk.

ASSET ALLOCATION (%)



KIBOR (1 M) vs FSGF



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