FAYSAL ASSET MANAGEMENT LIMITED

COMMITTED TO SETTING NEW STANDARDS IN INVESTMENT MANAGEMENT

Fund Manager Report

CEO CORNER
Salman Haider Sheikh, CEO
Email: salmansheikh@faysalbank.com

Interest Rates & Global Economic Turmoil

This month was a very eventful month on the national and international economic fronts. The underlying interest rates have a close relationship with the various financial markets in the respective economy. Today, we live in a global village and the impact of slow down in the large economies of the world can adversely impact our economy as well. We witnessed changes in the international interest rates in different directions impacting the international capital markets.

On the international front, we witnessed a decline in the equity markets from the U.S., Europe to the Asian markets. This decline was related to the economic data suggesting further slow down in the U.S. economy highlighting the threat of a recession in the country. The U.S. population, being only around 2% of the world population utilizes approximately 25% of the world consumption. The declining consumer and investment sentiment in the U.S. led to the decline of the equity markets around the globe. The declining U.S. economy will have a negative impact on the large emerging Asian economies of China and India as the manufacturing and services sectors in these economies can take a toll. The rising international oil and other commodity prices impacted the inflation data negatively. The U.S. housing market remained distressed after the impact of gigantic losses by the financial sector from sub-prime mortgage turmoil. The Federal Reserve in the U.S. tackled the issue at hand immediately by reducing interest rates by 125 basis points and a large tax rebate for the public to revive the economy. These actions of the Fed and the U.S. government provided temporary stability to the declining international equity markets.

In Pakistan, the situation was very different as the equity markets were still awaiting visibility on the political front. The Pakistani stock market did not take an impact of either side movement of the international equity markets. The declining volumes also indicated lack of institutional interest in the short-term. The month was also very significant as the fund managers anxiously awaited the State Bank's monetary policy towards the end of the month. The tightening stance of the monetary policy resulting in the increase in interest rate by 50 basis points and reserve requirement by 100 basis points clearly highlighted the inflationary concerns in the country. Although this concern is valid, the current account deficit increased by 31% YoY to USD 6.14 billion. The Trade deficit reached a level of USD 8.23 billion. The month also witnessed another outflow of over USD 101 million in the SCRA (special rupee convertible account), indicating further outflow of foreign investment from the country's equity markets. The economic data and the industrial output suggest a slowdown in the growth rate of the economy. The increase in the interest rates will also impact the KIBOR rates to increase which can adversely impact further credit demand by the industrial sector.

Faysal Asset Management and its Funds under management performed well during this volatile month and sustained their outperforming behavior highlighting the pragmatic fund management approach. The asset quality and conservative asset allocation during these short-term uncertain times have enabled FAML funds to provide stable returns for its valued investors.

KARACHI:
(021)279 5377
(021)279 5564

LAHORE:
(042)575 5190-4

ISLAMABAD:
(051)227 5096-9

PESHAWAR:
(091)527 0176-9

QUETTA:
(081)283 645-1

HYDERABAD:
(022)272 8356

GUJRANWALA:
(0553)730 301-4

FAISALABAD:
(041)4644 481-5

SIALKOT:
(052)429 2501-5

FAYSAL ASSET MANAGEMENT LIMITED

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FAYSAL BALANCED GROWTH FUND

JANUARY 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	14th April 2004	Trustees	Central Depository Company Of Pakistan Ltd.
Performance Benchmark	*KSE-100 INDEX / 6 M KIBOR	Auditors	Ford Rhodes Sidat Hyder & Co., Chartered Accountants

Returns	
Month On Month	0.21 %
Year To Date	5.06 %
Since Inception	77.28 %
Since Inception Return Annualized Basis	20.76 %

Portfolio Characteristics	
P/E Ratio	9.13 x
Dividend Yield	2.31 %

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

Stock Market Review

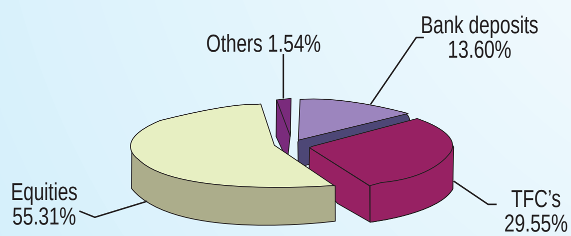
Market showed good recovery during the first week of the month as investors took advantage of the low prices and did value buying at lower levels. Market also staged one of its biggest recoveries in a single day during the month as it started recovering from the correction that took place after Benazir's assassination. However, market remained lack luster for better part of the month as positive news flow dried out. Investors and jobbers preferred to stay on the side lines with volumes drying out. One of the major reasons was the deteriorating law & order situation as well as the uncertainty regarding the upcoming elections. Volumes remained comparatively thin with average daily turnover of USD 378 Mio and average daily trading volume of 238 Mio shares. Foreign investors also stayed away from the market as sub-prime mortgage crisis dampened international markets. Profit taking and panic selling was witnessed in markets across the globe as investors panicked on fears of US economy going into recession. A large outflow from the Special Convertible Rupee Accounts (SCRA), which indicates foreign portfolio investment, was also seen during the month due to the aforementioned reasons. Monetary policy was announced near the closing of the month with the State Bank of Pakistan increasing its policy rate by another 50 basis points to counter growing inflation.

In our view a slight increase in interest rates was expected by market participants to counter the growing inflation, however we believe that this will not have any major impact on the fundamentals and as long as there is clarity on the election process the market will digest this and continue marching towards new highs.

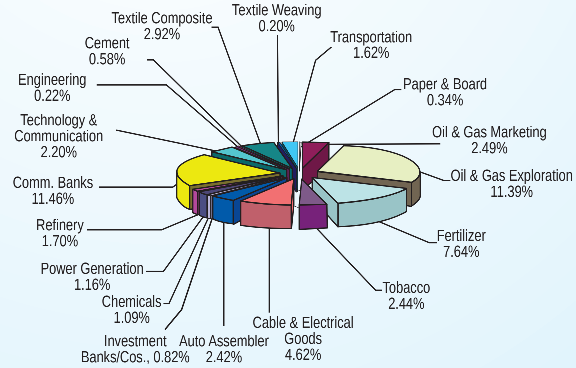
Performance

FBGF started the second half of FY 07-08 on a good note. The fund not only outperformed its performance benchmark but also out did the KSE-100 index. FBGF started the month of January at a NAV of Rs. 108.50 and closed the month at a NAV of Rs. 108.73 giving a return of 0.21% on Month on Month (MoM) basis. This return fared well in comparison to the KSE-100 index return of -0.42% and benchmark's return of 0.15% on MoM basis, outperforming both of them by 0.63% and 0.6% respectively. This month the average return of open-ended balanced equity funds was 0.45% (MoM) and the average Year to Date (YTD) return was 2.96%. FBGF continued with its good performance and closed the month at an YTD return of 5.06% thus outperforming the average return by 2.1%.

Asset Allocation (%)



Sector Allocation (%)



FAYSAL ASSET MANAGEMENT LIMITED

COMMITTED TO SETTING NEW STANDARDS IN INVESTMENT MANAGEMENT

Faysal income & Growth Fund

JANUARY 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 Ltd.
Performance Benchmark	6 Month KIBOR	Auditors	Ford Rhodes Sidat Hyder & Co., Chartered Accountants
Rating	A+ by JCR-VIS		

Returns	
Month On Month	7.68 %
Year To Date	10.73 %
Since Inception	11.50 %
MoM Avg Mkt Return	8.94 %

Money Market Rates			
Kibor		T-Bills	
3 M	9.90 %	3 M	9.0942 %
6 M	10.02 %	6 M	9.2962 %
12 M	10.44 %	12 M	9.4951 %

MONEY MARKET REVIEW

Market Perception Before Monetary Policy

Overnight money market remained liquid and closed on the average of 8.96 percent this month. This month shocked the money-market's punters as they witnessed 64 basis points increase in the yield of 10 years PIB, before the announcement of monetary policy. This tremendous change in PIB's yield gave a strong notion to the money market that the Government of Pakistan is desperate to borrow even on the high yield. Money gurus were expecting that a tight monetary stance would be taken in the wake of government borrowings which has reached alarming levels and is having an adverse impact on the economy.

Monetary Policy Announced

The State Bank of Pakistan (SBP) on January 31, 2008 raised its policy discount rate by 50 basis points to 10.5 percent effective from February 1, 2008, citing higher inflationary pressures on the economy as the reason behind the decision. It also raised banks' cash reserve requirement (CRR) by 100 basis points — increased to 8.0 percent from 7.0 percent — for deposits up to one-year maturity while leaving term deposits of over one year zero-rated.

Repercussions

The fresh hike in discount rate, ultimately increasing the interest rate would be doing nothing to curb the inflation, but would be adding further to the financial cost of local products. A negative growth in the banks credit for private sector was observed during the last six months. It indicates serious decline in the investment activities, while financing of working capital has no significant improvement. The total credit to private sector also declined by Rs.14 billion during the first five month of current fiscal year. The decline in private credit from banking sector shows a consistency on month-on-month basis. "All those indicators show the recession in the industrial sector and this situation may lead to the greater unemployment in the near future. The bank would make more profit but they will not pass it to their depositors. Further tightening of monetary policy by increasing 50 basis points in discount rate and 1% increase in the reserve ratio will hamper the ability of the banking sector to lend, ultimately adversely affecting the industry.

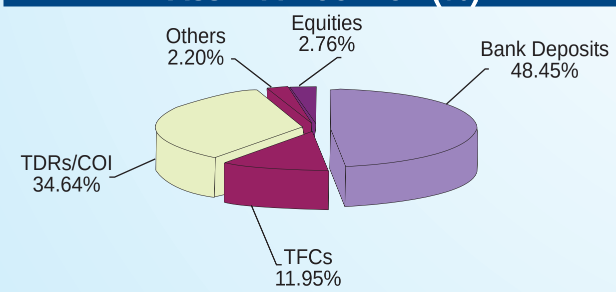
6-month KIBOR stood on the average of 10.02 percent, .05 percent compared to previous month. Inter-bank money market still has huge liquidity in their system against the SBP's tight monetary policy stance.

The existing political situation exacerbated the existing pressures that took toll on growth; re-scheduling of elections will stretch their impact into third quarter. GDP growth of 6.6 per cent is therefore unlikely. GDP can still grow by six per cent registering a modest slow down, as will the other regional economies but a critical factor in achieving this target would be the containment of inflation to stabilize the Industry's cost structure.

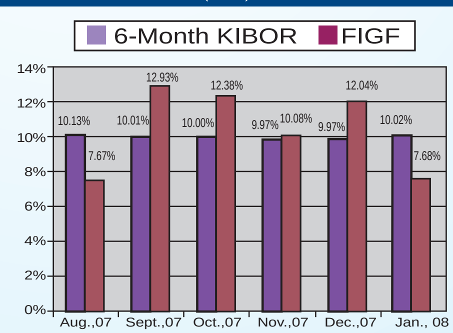
PERFORMANCE

Although money market return slashed during this month due to the presence of massive liquidity in the market FIGF attained 11.50 percent since its inception return and YTD return stood at 10.73 percent which are distinguished from the rest. The downward trend in the MoM return is mainly observed by the diminishing return in the equity market. This month, FIGF started at a NAV of Rs 105.75 and closed the month at a NAV of Rs 106.44 on MoM basis. On the asset allocation side the exposure in TDR/COIs and TFCs has reduced to 34.64 percent and 11.95 percent while the exposure in Bank Deposits and Equities increased to 48.45 percent and 2.76 percent respectively. Exposure in others reduced to 2.20 percent.

ASSET ALLOCATION (%)



KIBOR (6 M) vs FIGF



FAYSAL ASSET MANAGEMENT LIMITED

COMMITTED TO SETTING NEW STANDARDS IN INVESTMENT MANAGEMENT

FAYSAL SAVINGS GROWTH FUND

JANUARY 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	12th May 2007	Trustees	Central Depository Company Of Pakistan Ltd.
Performance Benchmark	1 Month KIBOR	Auditors	Ford Rhodes Sidat Hyder & Co., Chartered Accountants
Rating	To Be Announced Soon		

Returns		Money Market Rates			
		Kibor		T-Bills	
Month On Month	9.07 %	1 M	9.86 %	3 M	9.0942 %
Year To Date	9.90 %	3 M	9.90 %	6 M	9.2962 %
Since Inception	10.07 %	6 M	10.02 %	12 M	9.4951 %
MoM Avg Mkt Return	9.41 %				

Money Market Review

Although 10 years PIB's yield has been increased by 64 basis points which is a major change, the over night market however remained on the average of 8.96 percent, showing liquidity in the inter-bank money market. State bank of Pakistan has drained out Rs121.2 bn altogether through OMOs, T-bills and PIBs auctions during this month but prevailing liquidity is still posing a challenge for SBP. On the inflation front SBP has not been able to reign in food inflation. The worrying part is that rise in the prices of wheat, rice, edible oil and sugar accounts for nearly three-fourths of the rise in CPI.

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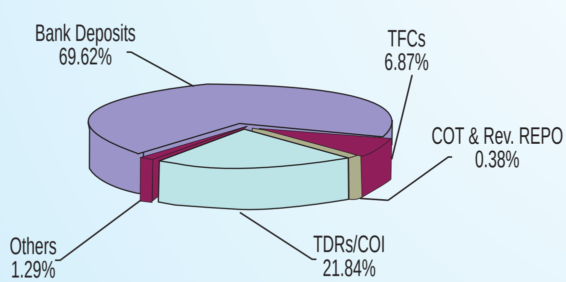
The approach of elections shifted government focus away from plugging critical infrastructure gaps, especially in the power sector, although this gap was implicitly (lost working hours) and explicitly (supply contract cancellations and ensuing losses) retarding productivity of every sector and escalating the cost of doing business. This critical gap will magnify over time, and part of the blame will lie with the industry because it never seriously pushed the government into matching power supply with the rising industry demand.

1-month KIBOR showed a slightly increasing trend and has reached the average of 9.86 percent as compared to the 9.81 percent of the last month.

Performance

FSGF has performed well during this month as well by achieving a since inception yield of 10.07 percent and YTD yield of 9.90 percent. FSGF has achieved 9.07 percent on month-on- month basis. This month, FSGF started at a NAV of Rs 105.18 and closed the month at a NAV of Rs 105.99 on MoM basis. On the asset allocation side exposure in TDRs/COIs,TFCs and others were reduced to 21.84 percent, 6.87 percent and 1.29 percent respectively, while exposure in the Bank Deposits and COT & Rev REPO increased to 69.62percent and 0.38 percent.

Asset Allocation (%)



KIBOR (1 M) vs FSGF