



# FAYSAL ASSET MANAGEMENT LIMITED

COMMITTED TO SETTING NEW STANDARDS  
IN INVESTMENT MANAGEMENT

Dear Investors,

Alhamdulillah, we successfully completed another financial year (Jul 06 – Jun 07) in the history of Faysal Asset Management Ltd. All funds under management achieved their desired targets of providing customers a stable return utilizing value investment approach.

As per the economic survey 06-07, real GDP growth was around 7% as compared to a 6.6% growth in the previous year. All three sectors of the economy namely agriculture, industrial and services contributed towards this robust growth. Despite this economic growth the current fiscal policies were not successful at minimizing the rate of inflation or the trade and current account deficits. The foreign reserves in the country surpassed levels of over \$13 billion adding to the increased interest in the foreign direct investment in the country.

The equity markets did not show any significant performance during the first half of the financial year. The second half of the financial year showed superior performance on the back of significant rise in the foreign portfolio investment in the country's equity markets. The foreign portfolio investments reached almost \$1 billion mark for the year marking an all-time high level of foreign investor confidence in the Pakistani capital markets. KSE-100 index reached a record level of 13,772 taking the market capitalization to almost \$66 billion. Banking sector led the rally in the KSE-100 posting approximately 42% return during the year. Other prominent investment sectors like Oil & Gas, telecom, cement, fertilizer and textile underperformed the market index. The banking sector attracted both local and foreign investors with their superior growth coupled with merger and acquisition frenzy in the sector. We saw an increased interest from foreign banks to re-enter the Pakistani financial sector with a long-term acquisition model approach.

On the international front almost all major equity markets posted high growth numbers reaching all time high levels. Dow Jones index reached levels of 13,400 while other European and Asian markets followed the bullish trend reaching highest levels. This phenomenon added to the portfolio allocation of the emerging market funds globally impacting emerging economies positively, including Pakistan. Pakistani markets still require further depth as only 13 new companies were listed during this fiscal year raising over Rs. 6 billion.

Federal Budget 07-08 proved to be investor friendly as capital gains tax exemption was extended for another year. The government increased NSS rates to curtail the liquidity from the money market. Governor State Bank of Pakistan also emphasized on the continuation of tight monetary policy in the near future. Two major tasks in front of the government are to control inflationary pressure along with the rising trade deficit.

Faysal Asset Management would like to thank all its investors for their confidence and trust in our services. InshAllah we will utilize our best efforts to optimize our output giving our clients superior long-term investment returns coupled with best service.

**Salman Haider Sheikh**  
Chief Executive Officer

### FUND 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.

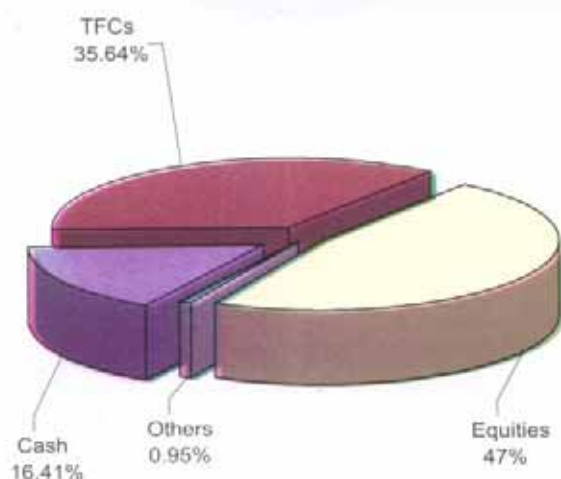
### PERFORMANCE

June brought down the curtains on FY07 which proved to be another stellar year for the stock market. FBGF gave a slightly moderate return of 21.16% compared to the market due to its balanced approach and risk averse nature. However FBGF's return since inception was an astonishing 68.70% which comes out to be 21.49% on an annualized basis. This speaks volumes about the management's professional and dedicated approach. Our asset allocation for the month remained more or less the same as last month's with a slight increase in equity exposure.

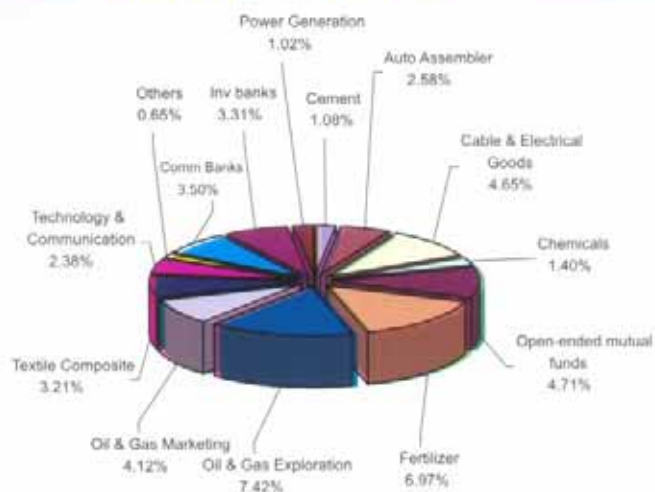
The outgoing fiscal year was a very promising year for the local equity markets. Equity markets showed superb performance during FY07 with the KSE-100 index giving a double digit return of almost 38% on a YoY basis. The major contributor to this rally was the banking sector where higher profitability due to the consumer boom and merger and acquisition activities kept the investors interest alive in the sector. The acquisition of PICIC by NIB, over subscription of UBL's GDR, upcoming IPO of HBL and SingTel's acquisition of 30% stake in Warid Telecom further boosted investors sentiments which kept pushing the index higher. Balances in the Special Convertible Rupee Accounts (SCRA), which indicates foreign portfolio investment, continued to increase and closed the year at a record level of USD 978Mio just shy of the billion dollar mark. The government's privatization programme which has boosted confidence in our economy, also helped in raising the enthusiasm amongst foreign investors. Average daily trading volume during the month increased by almost 20% to 350Mio shares.

While the economy has performed well, political uncertainties are likely to remain prominent for the time being. Rising inflation, growing trade and fiscal deficits also pose challenges in the coming times. Hence we continue to remain cautiously bullish on the market with market weight stance on high dividend yielding stocks.

### ASSET ALLOCATION (%)



### SECTOR ALLOCATION (%)



### RETURNS

Month on Month	3.11 %
Year To Date (YTD)	21.16 %
Since Inception	68.70 %

### PORTFOLIO CHARACTERISTICS

P/E	6.25 x
Dividend Yield	2.54 %
Annualized Yield	21.49 %

### FUND INFORMATION

Fund Type	Open Ended
Fund Launch Date	14th April 2004
Rating	3 Star by JCR-VIS
Performance Benchmark	KSE-100 INDEX

Registrar	Gangjees Registrar (Pvt.) Ltd.
Trustees	Central Depository Company (CDC) of Pakistan Ltd.
Auditors	A.F. Ferguson a member firm of PWC

#### Risk Disclosure:

All investments in mutual funds and securities are subject to market risks. Therefore, the NAV based prices of units cannot be guaranteed. Prices of units 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.

**FUND 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.

**PERFORMANCE**

FIGF closed FY07 as the best performing income fund with a return of 12.75% well above its benchmark of 6 months KIBOR which closed at 10.03%. On a MoM (month on month) basis FIGF gave a return of 10.33%, slightly above its benchmark's return as excessive liquidity in the market dragged down money market instrument rates. However, on comparison with its peers, which posted an average return of 10.37% for the year, FIGF's return of 12.75% was well above the average peer return beating them by 238 bps (basis points). Further the assets of the fund also doubled during the year which showed the investors trust in the management's proactive and sound decision making capabilities. On the asset allocation side exposure in Cash and Equivalents was reduced to 3.25% while exposure in TDRs/COIs was increased to almost 80%. Exposure in equities and TFC's was more or less maintained at the same level as last month's.

**MONEY MARKET REVIEW**

June was not an eventful month in terms of liquidity factors as the declining trend in inter bank money market rates continued. Bankers were interested to lock their position in 1 year rather than shorter tenure due to the imposition of capital gains tax in the recent budget. On average the six month KIBOR decreased by 14bps in the month of June and remained between the range of 9.53% to 10.03% compared to the last month's average range of 9.67% to 10.17%.

The mounting inflationary pressure along with widening current account deficit which has reached to \$ 7.39 billion during the period under review and high monetary growth in the out going year may create serious problems for the government in the next fiscal year 2007-2008. The high current account deficit with poor export growth would put more pressure on the economy.

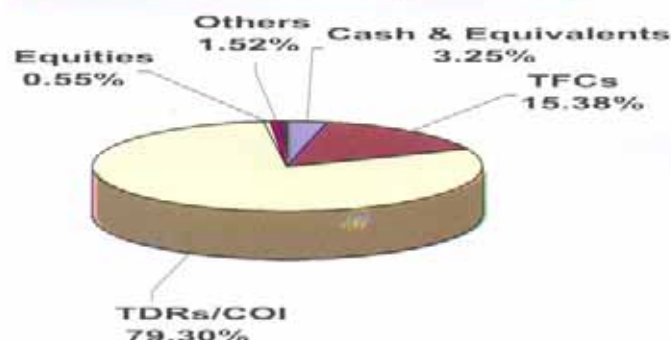
Consumer Price Index (CPI), a key indicator of inflation, rose 7.41% in May from a year earlier. On a Month-on-month basis CPI rose 0.92 % from 0.31% in April. For the Jul-May period, the average rise in the CPI was 7.84%. The rising trend in food prices was the main reason behind inflation, which is likely to make the State Bank of Pakistan continue with its tight monetary policy.

From the Next Fiscal Year (2007-2008), the ministry of finance would start imposing a cap on the government borrowing from the central bank. These borrowing limits will enable SBP to fight with inflation more effectively. Government borrowed Rs. 217 billion from the central bank during 2006-2007. Now ministry of finance will raise the bulk of domestic debt through non-banking sources and borrowing from the central bank would be kept at very low levels.

In nine months of this fiscal year (2006-2007), the government obtained Rs. 44.6 billion through NSS as compared to only Rs. 6 billion in the entire last fiscal year. The government also raised Rs. 36 billion through PIBs in the current fiscal year, against net withdrawal of Rs. 3.7 billion in the last year. Now in the next fiscal year, the government is willing to borrow more through NSS and PIBs. But borrowing through NSS poses a problem. If the government raises the yields to attract more funds that would add to its cost of borrowing. This would become all the more problematic because large volume of 10-year Defense Saving Certificates has matured making it difficult for the government to arrange funds for final payments on DSCs.

The new monetary policy, which is expected to be announced this month, may not bring any change in the prevailing tight monetary stance.

**ASSET ALLOCATION (%)**



**FIGF vs KIBOR (6M)**



**RETURNS**

Month on Month	10.33 %
FY 06-07	12.75 %
Since Inception	11.05 %

**BENCHMARK RATES**

KIBOR		T-BILLS	
3 Months	9.62 %	3 Months	8.69 %
6 Months	10.03 %	6 Months	8.90 %
12 Months	10.45 %	12 Months	9.15 %

**FUND INFORMATION**

Fund Type	Open Ended	Registrar	Ganjees Registrar (Pvt) Ltd.
Fund Launch Date	10th October 2005	Trustees	Central Depository Company (CDC) of Pakistan Ltd.
Rating	A+by JCR-VIS	Auditors	Ford Rhodes Sidat Hyder & Co. Chartered Accountants
Performance Benchmark	6 Months KIBOR		

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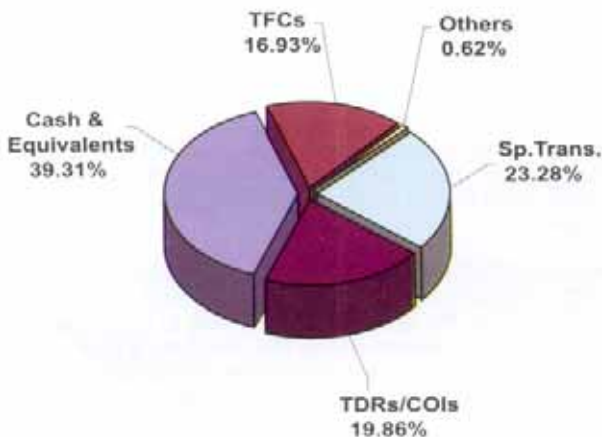
**FUND OBJECTIVE**

FSGF 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.

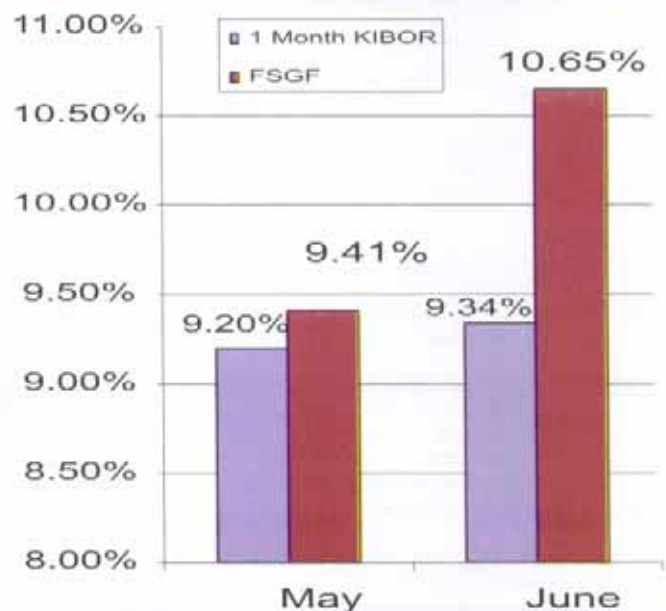
**PERFORMANCE**

FSGF closed FY07 on a good note by giving a return of 10.42%. The fund was launched on 12<sup>th</sup> May and within a span of a month and a half the fund has yielded a return of 10.42%, 108bps (basis points) more than its benchmark's return of 9.34%. On a MoM (month on month) basis the fund gave a return of 10.65% compared to last month's return of 9.41%. This performance clearly highlights the management's dedication and untiring efforts to increase the fund's yield and investors return. Asset allocation for the month changed as exposure in Cash & Equivalents was reduced to 39.31% whereas exposure in TFCs, TDRs/COIs and spread transactions was increased to 16.93%, 19.86% and 23.28% respectively. FSGF has a short term portfolio duration to ensure liquidity and to safe guard investors from interest rate risk.

**ASSET ALLOCATION (%)**



**FSGF vs KIBOR (1M)**



**RETURNS**

Month on Month	10.65 %
Year to Date	10.42 %
Since Inception	10.42 %

**BENCHMARK RATES**

KIBOR		T-BILLS	
1 Months	9.34 %	3 Months	8.69 %
3 Months	9.62 %	6 Months	8.90 %
6 Months	10.03 %	12 Months	9.15 %

**FUND INFORMATION**

Fund Type	Open Ended	Registrar	Ganjees Registrar (Pvt) Ltd.
Fund Launch Date	12 May 2007	Trustees	Central Depository Company (CDC) of Pakistan Ltd.
Rating	To Be Announced	Auditors	Ford Rhodes Sidat Hyder & Co. Chartered Accountants
Performance Benchmark	1 Month KIBOR		

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**MANAGED BY**



**FAYSAL ASSET MANAGEMENT LIMITED  
COLLECTIVE WISDOM**

Islamabad:  
(051) 227 5096-9

Peshawar:  
(091) 527 0176-8

Lahore:  
(042) 575 5190-4

Quetta:  
(081)283 6451-3

(021) 111 329 725 (111 FAYSAL)  
Customer Service: (021) 279 5377 - 279 5564  
customerservices@faysalfunds.com  
www.faysalfunds.com

Hyderabad:  
(022) 272 8356

Gujranwala:  
(0555) 730 301-4

Faisalabad:  
(041) 2644 481-5

Sialkot:  
(052) 429 2501-5