Impact of Politics on Economy and Vice Versa

Once again we are witnessing a political euphoria impacting the economy in Pakistan. It is the impact of economic growth leading to the political outcome in the western countries. Is politics bad? Is it impacting the stability of the country and its financial markets in a negative way? Apparently it seems as if the answer is yes; however the reality is otherwise. The long-term solution providing stability to the overall system in Pakistan can only be brought forward through political reforms in the country.

Today, we stand at a stage where an ex-Prime Minister and a political leader has lost her life leading to the rise in uncertainty both at the political as well as the economic front. International rating agencies have indicated further downgrade as a possible outcome due to the recent events in the country. Decrease in real FDI (foreign direct investment) and FPI (foreign portfolio investment) seem imminent due to this turmoil. Inflationary pressures are still on the rise leading to crisis situation in certain commodities. CPI (Consumer price index) was recorded at 7.9% for the first half of FY08. The fiscal deficit is also bound to deepen amid the increasing oil subsidy given by the government as compared to the recent international oil price hike. This fiscal deficit has surpassed a level of 1.5% of GDP during the first half of FY08. Flight of capital is another possibility along with the devaluation of the currency leading to further economic pressures. These pressures can be witnessed by an almost 2% increase in the price of US Dollar versus Pak. Rupee recently.

The stock market took an impact of 9.6% decline but we also witnessed quick recovery of more than half of those losses. The long-term impact is yet to be witnessed. The elections in the country have been postponed till the middle of February leading to further uncertainty at the political front. One can argue that these factors were prevalent in the country even in the pre-assassination days but the counter argument proves that the incident will have a deepening impact on an already worsening situation.

There is always light at the end of every tunnel but one must use a pro-active approach to get through it. We are utilizing such strategies in our balanced equity fund and it is one of the best performing balanced funds in the country during the first half of FY08. Even during the decline of close to 10% in the equity markets, FBGF took the least amount of declining pressure due to its conservative and prudent long-term approach.

The same is the case in the management styles of FIGF and FSGF indicating high levels of short-term investments in highly rated instruments and institutions minimizing the overall portfolio and duration risk. The fixed income funds can provide investors with shelter while their risk capital remains in the balanced equity fund to provide them with outperforming stable returns yielding an optimum long-term investment strategy.
FAYSAL ASSET MANAGEMENT LIMITED
COMMITTED TO SETTING NEW STANDARDS IN INVESTMENT MANAGEMENT

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

<table>
<thead>
<tr>
<th>FUND TYPE</th>
<th>REGISTRAR</th>
<th>GANJEEES REGISTRAR SERVICES (PVT) LTD.</th>
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<tbody>
<tr>
<td>Open Ended-Money Market Fund</td>
<td>CENTRAL DEPOSITORY COMPANY OF PAKISTAN LTD.</td>
<td>FORD RHODES SAVAT HYDER &amp; CO., CHARTERED ACCOUNTANTS</td>
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<table>
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<tr>
<th>FUND LAUNCH DATE</th>
<th>TRUSTEES</th>
<th>PERFORMANCE BENCHMARK</th>
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<tr>
<td>12th MAY 2007</td>
<td>TRUSTEES</td>
<td>1 Month KIBOR</td>
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<tr>
<th>RATING</th>
<th>RETURNS</th>
<th>Money Market Rates</th>
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<tr>
<td></td>
<td>MONTH ON MONTH</td>
<td>8.46 %</td>
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<td></td>
<td>YEAR TO DATE</td>
<td>9.96 %</td>
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<td></td>
<td>SINCE INCEPTION</td>
<td>10.13 %</td>
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<td></td>
<td>MOM AVG MTH RETURN</td>
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MONEY MARKET REVIEW

Although overnight market touched the average of 9.97 percent during the month of December, the deposit rates did not move up. The natural borrowers of the market have already taken long-term money as discussed in our reports. This liquidity factor, which is prevailing in the market, gave them the opportunity to obtain deposits at a low rate. Nearly Rs 99.5 Bio was drained out by the SBP from the inter-bank money market through OMOS and T-bill auction that indicates liquidity in the market. This liquidity factor has pushed corporate sector to replace their high rate borrowing with the lower ones.

We have also observed that corporate sector has exercised call options due to the massive liquidity factor; this bottle neck situation created a dilemma for the mutual funds to have high yields instruments in their portfolios.

1-month KIBOR showed an increasing trend and has reached the average of 9.81 percent as compared to the 9.64 percent of last month. This trend was seen due to the high demand of year-end borrowing in the short tenure. Banks were willing to give higher rate but for 1 to 3-months only.

Food inflation was again recorded at higher level mainly because of the wheat crisis, affecting the working class. Unmanageable food inflation and liquidity rang alarming bells for the policy makers.

The year 2007 ended with the sad demise of the PPP chairperson Mohtarma Benazir Bhutto, indicating political uncertainty and unrest in the whole country potentially impacting flight of capital and devaluation of currency.

PERFORMANCE

FSGF has performed well during this month by achieving yield of 10.13 percent since inception and YTD yield of 9.96 percent. FSGF has achieved 8.46 percent on month on month basis during this month. The overall average return paid on deposits by the banking sector indicated a slight decrease due to the abundance in liquidity present in the market.

On the asset allocation side the exposure in the bank deposit and TDRs decreased to 50.47 and 39.51 percent respectively. The exposure in others category and CPs (commercial paper) reduced to 1.39 and 8.02 percent respectively. FSGF has taken another exposure in COT & Rev Repo of 0.34 percent during this month. The fund management is seeking all possible investment avenues to ensure maximum yield for the investors while minimizing its risk exposure.

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.
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.

**Stock Market Review**

The KSE-100 index started the month on a positive note as it was announced that emergency would be lifted by 15th Dec, 07. The index started the month at 13,998.52 and touched a new high of 14,814.85 on closing basis. However, volumes remained comparatively thin with average daily turnover reducing by 21% to USD 377 Mio from USD 478 Mio last month. Foreign activity also remained dull due to Christmas and New Year holidays. Local investors remained bullish on the market particularly in stocks that had full year closings in December. Reasons being that after the imposition of capital gains tax such companies were required to book capital gains resulting in huge one time gains. However, the closing was marred by the sudden assassination of opposition leader Benazir Bhutto. Violence by angry mobs following the assassination caused a huge loss in terms of life and property. Standard & Poor's said it could cut Pakistan's credit rating if there was more turmoil in the country. Pakistani stocks slumped as trading resumed after a three-day mourning period. The KSE-100 index tumbled by almost 4.8% as weak holders and investors alike pulled out funds from the market because of concern that foreign investors may pull funds out of the country in the wake of deteriorating law and order situation.

In our view a correction was expected after the assassination of Benazir, 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 correction and continue marching towards new highs.

**Performance**

FBGF performed exceptionally well in the first half of FY '08 as it outperformed its performance benchmark by a considerable margin. This was possible only because of the pro-active fund management approach. FBGF closed the first half of the fiscal year by posting a return of 4.84% compared to the KSE-100 index return of 2.2%. This month, FBGF started at a NAV of Rs. 107.68 and closed the month at a NAV of Rs. 108.50 up 0.76% on MoM (month on month) basis compared to the benchmark's return of 0.65%. The average year to date (YTD) return of open ended equity funds for the first half of the fiscal year was 2.81% compared to FBGF’s return of 4.84% thus out performing them by 2.03%. This is a big achievement as even with a maximum exposure limit of 70% in equity, FBGF outperformed some of the pure equity funds by a decent margin. While comparing FBGF to the open-ended balanced funds category we again see that FBGF outperformed them on MoM and YTD basis by giving a return of 0.76% and 4.84% compared to the average return of balanced equity funds of -0.36% and 2.39% respectively.

**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.
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.

In the investment objective section, FIGF outlines its strategy to protect investors' capital while generating stable returns. The fund aims to provide a consistent income stream to its investors, targeting those who seek a safe haven in their investments.

The performance section highlights the fund's outperformance against its benchmark, demonstrating its effectiveness in achieving its investment goals. FIGF outperformed its peers during the month by posting a 12.04 percent return, which is notably higher than the market average.

The asset allocation section provides a visual representation of how the fund is structured. TDRs/COIs make up the largest portion, at 60.69 percent, followed by equities at 19.66 percent and bank deposits at 20.46 percent. This allocation suggests a diversified portfolio aimed at managing risk and maximizing returns.

MONEY MARKET REVIEW

Overnight money market remained at high level at an average of 9.57 percent during this month. SBP drained out liquidity of Rs 48.5 Bio and Rs. 55.2 Bio through OMOs and T-bill auctions respectively. This month did not look too lucrative to the lenders to obtain attractive rate of return. Year-end factor was negated and was not observed during the month because the major borrowers of the market had already squared their positions by taking long-term money at lower levels earlier due to the prevailing high liquidity in the market.

On the inflation front, SPI (Sensitive Price Index) reached at high level posing a challenge for the central bank. Long queues at the utility stores posed an alarming situation for the SBP because the prices of wheat and other food commodities, that rose in the recent days are unlikely to come down in the near future. These prices are likely to go up further in the months ahead and stay high for long unless a radical policy intervention brings them back. On the other hand international oil prices are moving between the range of USD 90 to USD 100 with the possibility of further increment. This incremental impact can increase trade deficit and oil price hikes would be passed on to the consumer's pocket.

6-month KIBOR stood at an average of 9.97 percent, which is the same as last month. This unchanged number indicates liquidity in the market which kept KIBOR on hold during this month.

FAML is determined to remain the best performing fund in the market by the virtue of its superior yield. FIGF offers excellent opportunity for long term investors who are looking for safe investment with better returns.

Performance

FIGF outperformed its peers during the month by posting a 12.04 percent return on MoM (month-on-month) basis while the peers’ average return for the same was 9 percent. FIGF beat its benchmark (Average of 6-month kibor) by 2.07 percent which is a noticeable difference from the rest. Since the beginning, the return and YTD (year to date) return reflected 11.57 percent and 11.18 percent respectively. The management continues to diversify its assets class within highly rated instruments and institutions. On the asset allocation side the exposure in TDRs/COIs and TFCs has increased to 60.69 percent and 14.44 percent while the exposure in Bank Deposits and equities decreased to 20.46 percent and 1.96 percent respectively. Exposure in others increased to 2.45 percent.