

FUND SELECT

An Investment Guide to Mutual Funds

Highlights

Market Roundup

Throughout June 2007, the interbank money market remained extremely volatile with overnight rates fluctuating in a wide band of 0.10-9.50%. During the month under review, the benchmark KSE-100 Index gained 811 points (6.26%). Moreover, the first half CY07, proved to be an outstanding period for local bourses as well as for most of the global equity markets.

National Investment Trust (NIT)

Commencing journey in 1962, the National Investment Trust (NIT) has presently more than PRs100 bn under management. The Trust holds more than 40% market share in the country's overall mutual fund industry and over 70% share in Equity Fund segment. Moreover, NIT owns almost 2.5% of the overall KSE market capitalization.

Spotlight on HBL- Income Fund

HBL Asset Management Limited, a wholly owned subsidiary of Habib Bank Ltd, launched its first fund "HBL- Income Fund" on March 19th, 2007 with the seed capital of PRs250mn.

The idea behind this monthly bulletin is to enhance reader's knowledge about different mutual funds. In our view, this is still a much untapped sector which provides relatively better investment opportunity to investors. Funds are selected randomly, one each from equity and income segment. In our last issue we covered "KASB Income Fund and Meezan Islamic Fund." In this issue we present "National Investment Trust (NIT) and HBL- Income Fund." Your suggestions to add value to this product are more than welcome."

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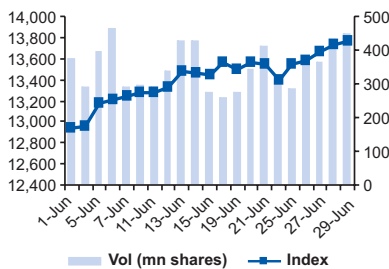
Investment Bank

Table 1: Pakistan Investment Bonds

Tenor Yrs	Amount PRs mn	Coupon	Cutoff Yield
3	1,350	9.10%	9.32%
5	1,700	9.30%	9.55%
10	6,700	9.60%	10.12%
15	875	10.00%	10.99%
20	1,700	10.50%	11.20%
30	3,600	11.00%	11.59%

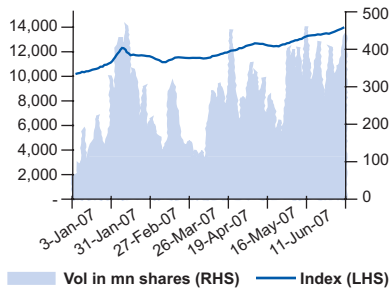
Source: IGI Money Market Desk

Chart 1: KSE - 100 Index



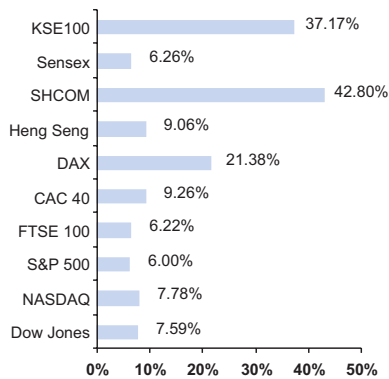
Source: KSE & IGI Research

Chart 2: KSE - 100 Index during Jan-Jun 07



Source: KSE & IGI Research

Chart 3: 1HCY07 Index Return



Source: Bloomberg & IGI Research



Market Roundup

Focus on Money Market

Throughout June 2007, the interbank money market remained extremely volatile with overnight rates fluctuating in a wide band of 0.10-9.50%. The overnight rates commenced the month in the band of 4.90-5.10%. Nevertheless, later in the month, the overnight rate fell as low as 0.10-0.30%. In order to drain excess liquidity from the market and provide some sort of support to the nose diving overnight rate, the Central Bank did consecutively seven OMOs (Open Market Operations) in the last week of FY06-07 and cumulatively mopped up around PRs45 bn from the market. During the month, SBP conducted a PIB auction. The outcome of PIB auction can be seen in Table 1.

Equity Market Snapshot

During the month under review, the benchmark KSE-100 gained 811 points (6.26%). The market capitalization, for the first time in history, crossed PRs4 trillion (US\$66 bn). Average daily turnover stood at 350mn shares as against 285mn shares a month earlier, witnessing an increase of 22.8% MoM. Average turnover in futures counter witnessed an increase of 26% MoM. Moreover, CFS hovered around its ceiling throughout the month with average rate hovering around 11.85%.

Table 2: KSE Review

	KSE-100 Index	KSE-30 Index	Market Capitalization	Avg Turnover Ready	Avg Turnover Futures
29-Jun-07	13,772.46	16,993.51	4,019.42	349.71	72.26
31-May-07	12,961.26	16,277.49	3,781.18	284.77	57.35
%Chg MoM	6.26%	4.40%	6.30%	22.80%	26.00%

Source: KSE Index & IGI Research

First Half CY07 Performance Highlights

The first half CY07, proved to be an outstanding period for local bourses as well as for most of the global equity markets. Despite the interest rate hike by Federal Reserve and Bank of England, United States and major European equity markets managed to close the half year on a positive note. US equity market witnessed a growth of around 7% YTD. Among major European equity index, DAX reported an increase of 21.4% YTD, while FTSE100 and CAC40 posted a decent increase in the range of 6% YTD and 9% YTD respectively. Moreover, during the period under review, emerging Asian markets posted phenomenal returns. Shanghai Composite index reported an increase of 42.8% YTD, while the KSE100 index offered an average return of 37.2% YTD. Indian equity market, after witnessing robust growth in CY06, managed to gain only 6.26% in 1H07. Evaluating equity markets on key valuation indicators, as well as keeping in view GDP growth rate and interest rates prevailing in different countries, KSE100 index still looks relatively attractive than its regional counterparts.

Table 3:

		Index as on		Price Earnings	Dividend
		29-Jun-07	29-Dec-06	Multiples (x)	Yield (%)
America					
USA	Dow Jones	13,408.62	12,463.20	17.89	2.09
USA	NASDAQ	2,603.23	2,415.29	39.95	0.64
USA	S&P 500	1,503.35	1,418.30	17.95	1.76
Europe					
United Kingdom	FTSE 100	6,607.90	6,220.80	14.71	3.58
France	CAC 40	6,054.93	5,541.76	16.29	2.71
Germany	DAX	8,007.32	6,596.95	14.58	2.44
Asia					
Hong Kong	Heng Seng	21,772.73	19,964.72	16.96	2.68
China	SHCOM	3,820.70	2,675.47	40.02	0.69
India	Sensex	14,650.51	13,786.92	21.82	1.21
Pakistan	KSE100*	13,772.46	10,040.51	11.78	3.50

*PE multiple of KSE100 Index is calculated based on IGI Stock Universe earnings expectations for FY07-08

Source: Bloomberg & IGI Research

Table 4: Fact Sheet

Fund Type	Open-End Equity
Fund Size as on 30-Jun-07	PRs 100.96 bn
Trust Rating	4 Star by PACRA
Listing	Karachi Stock Exchange
Custodian & Trustee	National Bank of Pakistan
Auditors	Anjum Asim Shahid Rahman
Investment Objective	Growth & Dividend Yield
Asset Class	Equity
Benchmark	KSE-100
Entry / Exit Load	2.5% & 1% respectively
Management Fee	1%
Minimum Subscription	PRs 5,000

Source: NIT

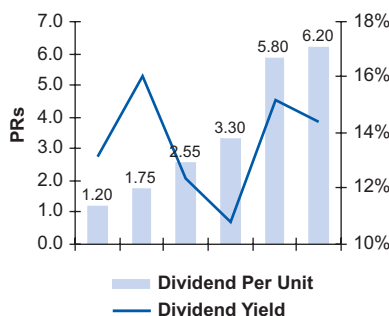
National Investment Trust (NIT)

Commencing journey in 1962, the National Investment Trust (NIT) has presently over PRs100 bn under management. The Trust holds more than 40% market share in the country's overall mutual fund industry and over 70% share in Equity Fund segment. Moreover, NIT owns almost 2.5% of the overall KSE market capitalization. Due to its massive size and intensive presence, the Trust plays a pivotal role in the country's equity market and mutual fund industry. The much awaited privatization of the Trust has been further delayed and the probability of it to be completed before the federal election is less likely.

Recent Result Review

FY06-07 proved out to be a historic year for the country's largest mutual fund, as the fund size surpassed PRs100 bn mark. During the year, the bottomline of NIT witnessed an increase of 114% YoY, which surged to PRs19.8 bn (translating into an EPS of PRs12.24) as against PRs9.24 bn (EPS: PRs6.19) in FY05-06. The key reason behind the massive growth in the net profit was the fact that the Trust realized all time high capital gains of PRs16.82 bn as compared to PRs6.81 bn recorded last year, which depicts a massive growth of 147% YoY. The huge capital gain realized by the Trust is mainly attributable to the block sale of NIT's holding in Lakson Tobacco, PICIC, Prime Bank Ltd etc. The gains realized through rightsizing of HFT & AFS (Held For Trading and Available For Sale) Portfolios stood at PRs11.07 bn. During the year, net assets of the fund depicted a growth of 57% YoY, which jumped to PRs100.963 bn as on June 30, 2007 from PRs64.296 bn a year earlier. Moreover, keeping the attractive payout policy intact, the Trust has announced cash dividend of PRs6.20 per unit as against PRs5.80 per unit paid last year.

Chart 4: Dividend Payout Trend



Source: NIT & IGI Research

Table 5: NIT Financial Highlights FY2002-07

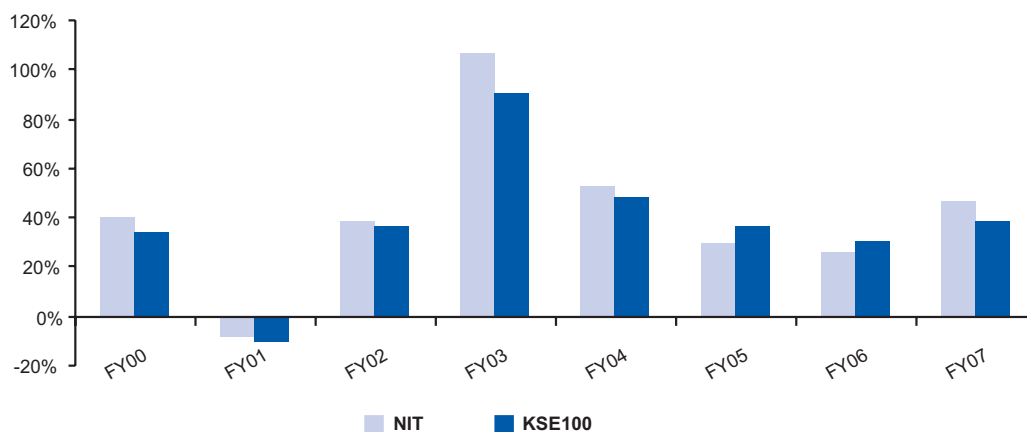
	FY02	FY03	FY04	FY05	FY06	FY07
Net Assets (PRs bn)	17.40	31.60	49.50	61.00	64.30	100.96
Dividend Income (PRs bn)	1.89	2.37	2.49	3.32	3.46	3.08
Capital Gain (PRs bn)	0.54	0.97	1.98	2.66	6.80	16.82
Net Profit (PRs bn)	1.92	2.88	4.31	5.68	9.24	19.81
Earnings Per Unit (PRs)	1.22	1.87	2.66	3.55	6.19	12.24
Opening NAV (PRs)	9.16	10.89	20.58	30.53	38.12	43.07
Closing NAV (PRs)	10.89	20.58	30.53	38.12	43.07	62.38
Appreciation in NAV (%)	18.9%	89.0%	48.3%	24.9%	13.0%	44.8%

Source: NIT

Relative Performance Highlights

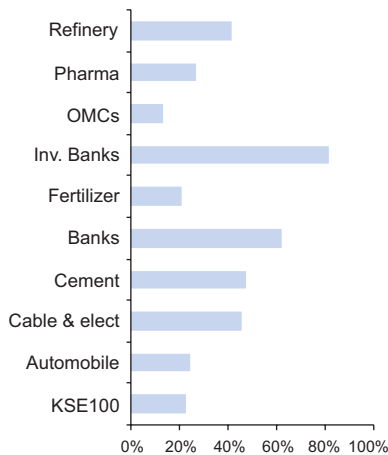
Since FY02, the net asset value of the fund grew at a CAGR of 37.68%. Moreover, NIT as well as KSE100 index managed to close the financial year on a positive note for six years in a row. Since FY02, the Trust has managed to outperform the benchmark KSE100 index four times whereas during FY04-05 and FY05-06 the fund has marginally underperformed the index.

Chart 5: NIT and KSE Performance Snapshot



Source: NIT

Chart 6: Relative Sector Performance during 4th Qtr FY06-07

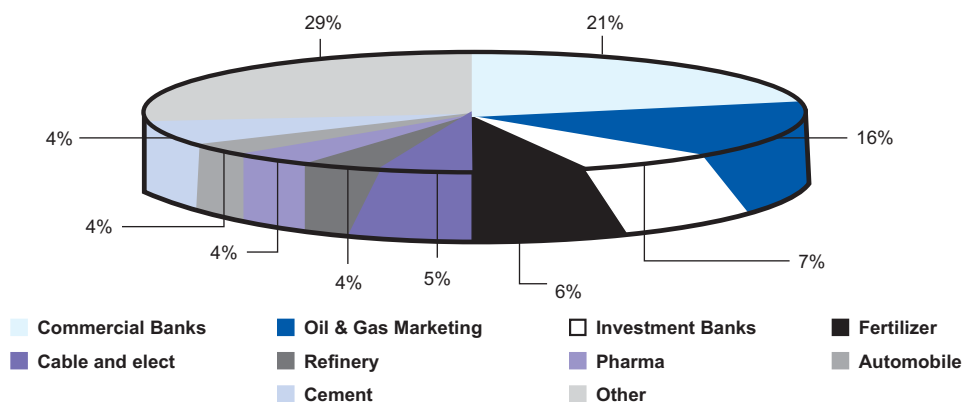


Source: IGI Research

Portfolio Evaluation

The Trust makes investment in stocks that offer potential capital gain and / or decent dividend yield. Moreover, the Trust usually remains 95% invested in the market while the remaining 5% are kept in daily products to meet any unexpected redemption pressure. As of April 2007, the fund had maximum exposure in the banking sector. The recent rally at KSE is mainly driven by the banking sector. This clearly depicts that the fund manager made a shrewd move by taking massive exposure into this sector. Investing more than PRs15 bn in one sector could not have been a good move but given the extensive management experience and prudent decision making policy, proved this investment worthwhile, which led the fund to outperform the index. Moreover, during last quarter FY06-07, except for Fertilizer and Oil & Gas Marketing sectors, all major sectors where NIT had major exposures have outperformed the KSE100 index.

Chart 7: Sector Allocation as of April 2007



Source: NIT

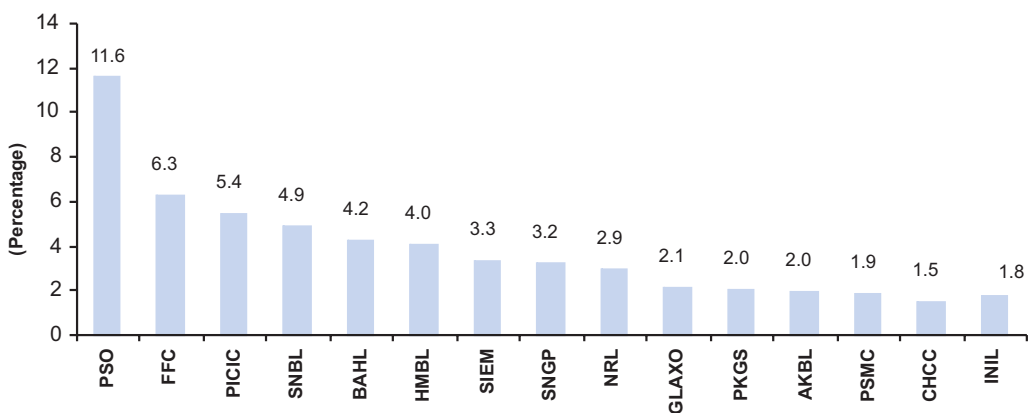
Table 6: Performance Review Top 15 Stocks

	29-Jun 2007	30-Mar 2007	QoQ %Chg
SIEM	1735.0	1010.00	71.78%
PKGS	319.1	213.33	49.55%
NRL	341.0	240.20	41.97%
HMB	77.0	55.51	38.72%
AKBL	105.9	77.05	37.44%
PICIC	82.1	64.45	27.39%
INIL	148.3	116.50	27.25%
GLAXO	187.5	154.00	21.75%
CHCC	56.5	47.25	19.58%
BAHL	66.5	56.20	18.33%
SNBL	56.5	48.70	15.91%
FFC	121.3	105.55	14.87%
PSMC	392.0	346.63	13.09%
PSO	391.5	355.05	10.25%
SNGP	70.8	65.40	8.18%

Source: IGI Research

The Trust has massive strategic holdings in state owned oil marketing giant Pakistan State Oil (PSO). Privatization of PSO is the top most priority of Privatization Commission. In the event of its privatization, NIT would be one of the major beneficiaries. Moreover, as of March 2007, the Trust holds 3.2% SNGP which is another entity likely to be privatized going forward. The government is expected to get a good deal from the privatization of SNGP, once IPI (India-Pakistan-Iran) gas pipeline arrangement would be finalized. It can be concluded clearly from table 6 that out of 15 top holdings, seven stocks have outperformed the index with reasonably good margin. Siemens Pakistan, Packages Limited and National Refinery offered respectively the utmost returns.

Chart 8: Top 15 Holdings as of March 2007



Source: NIT



The Bottomline: An Investment Perspective

We view this fund as a robust growth play, offering reasonably good capital gains coupled with decent dividend yield on a consistent basis.

Table 7: Validity for July 10, 2007

Offer	PRs 100.31
Redemption	PRs 100.31

Source: HBL - AMC

Table 8: HBL Income Fund- A Snapshot

Fund Type	Open end Income
Fund Size as on 30-Jun-07	PRs5.047bn
NAV as on 9-Jul-07	PRs100.31 per unit
Date of launch	March 19, 2007
Seed / Core Investor	Habib Bank Ltd
Seed Capital	PRs 250mn
Trustee	CDC
Auditor	A. F. Ferguson
Management Fee	1.50%
Sales Load	0%
Minimum Investment Size	PRs 5,000
Subsequent investment	PRs1,000

Source: HBL - AMC

Spotlight on HBL- Income Fund

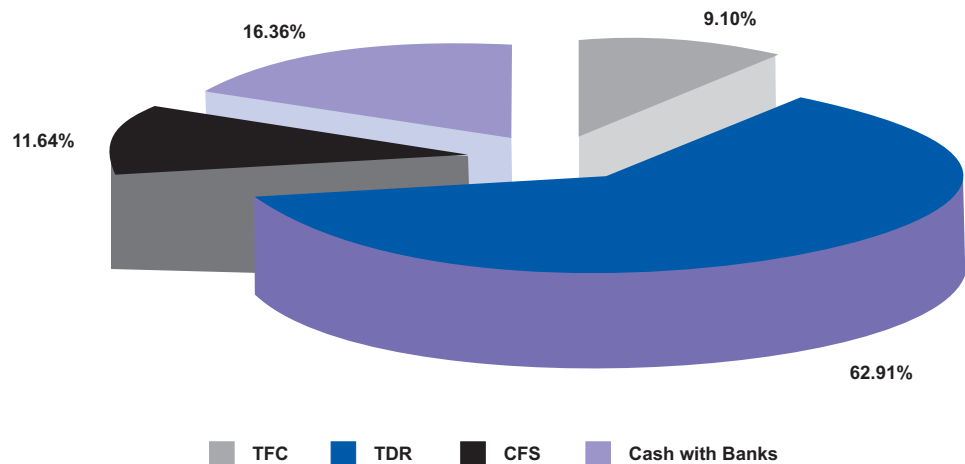
HBL Asset Management Limited, a wholly owned subsidiary of Habib Bank Ltd, launched its first fund “**HBL- Income Fund**” on March 19th, 2007 with the seed capital of PRs250mn. The Fund’s Objective is to “*provide stable stream of income with a moderate level of risk by investing in fixed income securities/instruments.*” Presently, the company has more than PRs5bn under management. In near future, the company intends to launch more funds.

Performance Highlights

HBL Income Fund was launched on 19 March 2007 with initial offer price of Rs.100/-. The NAV of the Fund increased gradually and was Rs.102.73 as on June 30, 2007 before declaration of dividend. This gives an annualized return of 9.58%. The fund has declared a bonus unit distribution at Rs.2.65 per unit which entitles each eligible unit holder 0.02648 bonus unit for each existing limited held as on 30 June 2007. Return offered by the fund is also higher than that one month KIBOR and special saving certificates of NSS.

Asset Allocation

Due to reasonable growth in fund size in a span of only three months and keeping in view that interest rates are going down, for the time being, the fund manager preferred to place significant portion of the portfolio in TDR of different tenure. It is the intention to increase exposure in CFS and TFCs (Term Finance Certificates). The fund has already committed substantial amount to the upcoming TFCs offerings which would enhance fund’s exposure in TFCs. Increased exposure in TFCs would help in increasing the return of the Fund.

Chart 9: Asset Allocation as of June 30, 2007

Source: HBL - AMC & IGI Research

Who should invest in HBL- Income Fund?

HBL-Income Fund provides ideal investment opportunity to risk-averse investors who want to park their savings or idle cash in instruments/products which yields steady competitive returns and ensures safety of their principal amount. Moreover, in our view, the fund provides outstanding investment opportunities to corporate, pension, provident funds and individual investors who want consistent returns.

The bottomline: An Investment Perspective

“We view this fund as a defensive play, offering decent returns on consistent basis.”

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I, Tahir Hussein Ali, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject, securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report.

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