

REPORT OF THE DIRECTORS OF THE MANAGEMENT COMPANY

The Board of Directors of HBL Asset Management Limited is pleased to present its report together with first Quarterly Report of HBL Income Fund, HBL Stock Fund, HBL Multi Asset Fund and HBL Money Market Fund (the Funds) for the quarter ended September 30, 2011.

MARKET REVIEW

Money Market Review

The State Bank of Pakistan (SBP), after keeping the policy rate unchanged at 14% since November 2009, reduced the policy rate by 50 basis points to 13.5% on July 26, 2011. The change in the policy stance from contractionary monetary policy to expansionary monetary policy was based mainly on the expectations of low inflation rate and improved current account condition. Money market remained mostly tight during the period July to September 2011 and SBP had to conduct frequent Open Market Operations (OMOs), around twenty times in three months, to inject short term liquidity in the financial market. Average one month KIBOR increased from 13.54% in June 2011 to 13.69% in July 2011. However, due to decrease in discount rate on July 26, 2011 it came down to 13.45% in August 2011 but again increased to 13.52% in September 2011.

The inflation saw a downtrend as it declined consistently from 13.77% in July 2011 to 11.56% in August 2011 and 10.46% in September 2011. The decline in inflation in August 2011 and September 2011 was mainly due to change in base year from 2000 – 2001 to 2007 – 2008 as well as reconstruction of Consumer Price Index. The average inflation for the quarter July – September 2011 stood at 11.93%.

In the monetary policy announced on October 08, 2011, the SBP has again decreased the discount rate by 150 basis points to 12% which is an indication that SBP has started loosening monetary policy stance. However, future direction of the policy rate would be dependent upon the inflation numbers and current account condition.

Stock Market Review

The market was mostly bearish during the period under review. The KSE – 100 Index consistently went down from 12,496 points as on June 30, 2011 to as low as 10,842 points on August 23, 2011. Even the decline in discount rate failed to arrest the bearishness of the market. Thereafter the market witnessed some recovery as the index improved by 9.31% to 11,852 points as on September 21, 2011 and managed to close at 11,762 points as on September 30, 2011. During the quarter July – September 2011, the KSE – 100 index

declined by 734 points or 5.87%. The average daily turnover for the quarter was 59.36 million shares per day.

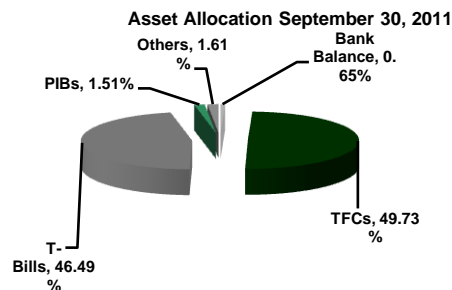
While the decline in policy rate by SBP is good news for capital market, the future direction of the market would be dependent on several factors such as proper management of energy/electricity crises, law and order situation in the country, political stability and balance of payment condition.

FUND'S PERFORMANCE

HBL Income Fund

During the period under review, the total and net income of the Fund was Rs 46.61 million and Rs 38.23 million respectively. The Net Asset Value (NAV) of the Fund increased from Rs 98.5143 per unit at July 1, 2011 to Rs 101.3823 per unit as on September 30, 2011, giving an annualized return of 12.08%. During the same period the benchmark return (One month KIBOR) was 13.52 %. The Fund was unable to outperform against benchmark mainly due to recognition of provision against non-performing debt securities and suspension of mark-up income there against. The size of the Fund increased slightly from Rs 1.51 billion as on June 30, 2011 to Rs 1.55 billion as on September 30, 2011.

The asset allocation of the Fund in various sectors and asset classes as on September 30, 2011 was as under:

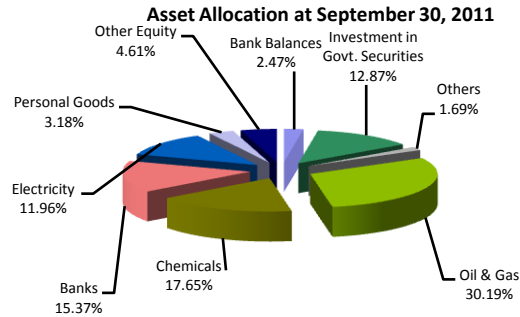


HBL Stock Fund

During the period under review the Fund has incurred net loss of Rs 3.01 million. The Fund has recognized an impairment loss on equity securities classified as “available for sale” amounting to Rs 7.32 million in accordance with the requirements of IAS 39. The impairment loss and capital loss on sales of investments amounting to Rs 4.7 million were the main reasons for net loss to the Fund for the period under review. The Net Asset Value (NAV) of the Fund, however, increased from Rs 93.7508 per unit at July 1, 2011 to Rs 95.0541 per unit as on September 30, 2011, showing an increase of 1.39%. During the same period the bench mark KSE 100 index declined by 5.87%. The Fund was therefore able to outperform the benchmark

as it was holding some securities in the portfolio which showed resistance in price decline compared to decline in KSE – 100 Index.

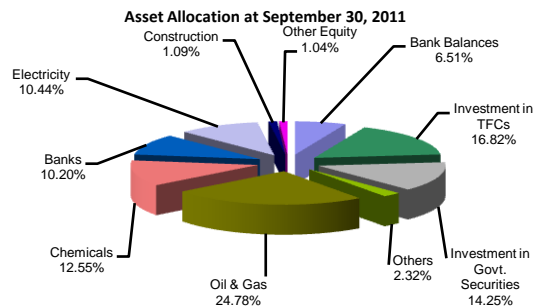
The asset allocation of the Fund in various sectors and asset classes as on September 30, 2011 was as under:



HBL Multi Asset Fund

During the period under review the total and net income of the Fund was Rs 6.01 million and Rs 3.60 million respectively. The Net Asset Value (NAV) of the Fund increased from Rs 84.161 per unit at July 1, 2011 to Rs 86.8958 per unit as on September 30, 2011, showing an increase of 3.25% against benchmark (50% KSE 100 Index + 50% 1 – Month KIBOR) return which was negative by 1.24%. The Fund was able to outperform the benchmark due to better performance by its equity investments compared to KSE – 100 Index.

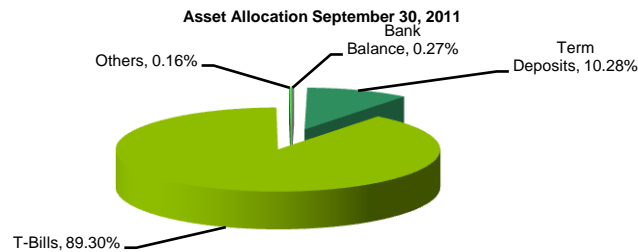
The asset allocation of the Fund in various sectors and asset classes as on September 30, 2011 was as under:



HBL Money Market Fund

During the period under review, the total and net income of the Fund was Rs 169.86 million and Rs 147.95 million respectively. The Net Asset Value (NAV) of the Fund increased from Rs 100.0004 per unit at July 1, 2011 to Rs 103.0806 per unit as on September 30, 2011, giving an annualized return of 12.22%. During the same period the benchmark return (50% 3 – Month PKRV + 50% 3 – Month Deposit Rate) was 11.46%. The Fund was able to outperform the benchmark as it was holding Treasury Bills of longer tenor which gave price appreciation in view of news of decline in policy rate.

The asset allocation of the Fund in various sectors and asset classes as on September 30, 2011 was as under:



Acknowledgement

The Board takes this opportunity to thank its valued unit-holders for their confidence and patronage. It would like to place on record its appreciation for the help and guidance provided by Securities & Exchange Commission of Pakistan, Central Depository Company of Pakistan as Trustee, the Lahore Stock Exchange and State Bank of Pakistan.

The Board also wishes to place on record its appreciation for the hard work and dedication shown by the staff.

On behalf of the Board of
HBL Asset Management Limited

Towfiq H. Chinoy

Chairman

Date: October 11, 2011

Place: Karachi