

## **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 Islamic Money Market Fund and HBL Islamic Stock 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 benchmark KMI – 30 Index increased from 20,629 points as on June 30, 2011 to 20,893 points as on July 29, 2011 showing an increase of 1.28%. However, bearish trend prevailed during the month of August 2011 and the benchmark index declined to 20,061 points or by 5.38%. The positive sentiments resurfaced during the month of September 2011. The KMI – 30 Index gained 1,251 points or 6.24% during the month of September 2011. The declining trend in inflation and expectations of decrease in policy discount rate were the main factors behind positive sentiment of market. The decrease in KMI – 30 during the month of

August 2011 slightly offset the overall increase during the quarter and the benchmark index closed at 21,313 points at September 30, 2011 showing increase of 1.80% during the period under review.

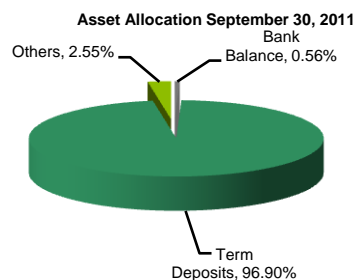
While the decline in policy rate by SBP is good news for capital market, the future direction of the market would be dependent on several factors such as proper management of energy/electricity crises, law and order situation in the country, political stability and balance of payment condition.

## **FUND'S PERFORMANCE**

### **HBL Islamic Money Market Fund**

During the period under review, the total and net income of the Fund was Rs 12.06 million and Rs 10.29 million respectively. The Net Asset Value (NAV) of the Fund increased from Rs 100.0012 per unit at July 1, 2011 to Rs 102.5724 per unit as on September 30, 2011, giving an annualized return of 10.20%. During the same period the benchmark return (3 Month bank deposit rates) was 7.94%.

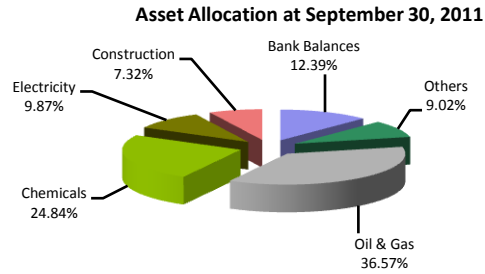
The asset allocation of the Fund in various sectors and asset classes as on September 30, 2011 was as under:



### **HBL Islamic Stock Fund**

During the period under review, the total and net income of the Fund was Rs 4.47 million and Rs 2.44 million respectively. The Net Asset Value (NAV) of the Fund increased from Rs 100.9507 per unit at July 1, 2011 to Rs 106.7993 per unit as on September 30, 2011, showing an increase of 5.79%. During the same period the benchmark return (KMI 30 Index) was 1.8%. The Fund was able to outperform the benchmark due to the reason that the Fund is holding better securities mix in equity investment portfolio.

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