

## REPORT OF THE DIRECTORS OF THE MANAGEMENT COMPANY

The Board of Directors of HBL Asset Management Limited is pleased to present the Annual Reports of HBL Islamic Money Market Fund and HBL Islamic Stock Fund (the Funds) for the period ended June 30, 2011.

### INITIAL PUBLIC OFFERINGS

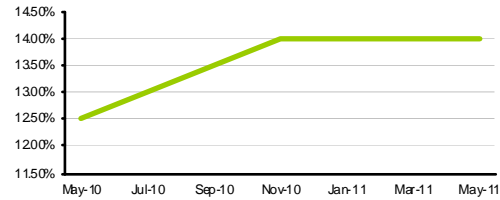
By the Grace of Allah HBL Islamic Money Market Fund and HBL Islamic Stock Fund were offered for Initial Public Offering (IPO) on May 9, 2011 and May 10, 2011. A sum of Rs 379 million and 255 million were received for HBL Islamic Money Market Fund and HBL Islamic Stock Fund respectively from pre-IPO investors and general public. The two Funds commenced operations on May 11, 2011. The Fund size of HBL Islamic Money Market Fund was Rs 397 million and that of HBL Islamic Stock Fund was Rs 268.59 million as on June 30, 2011.

### MARKET REVIEW

#### Money Market Review

During the year under review the State Bank of Pakistan (SBP) opted for a tight monetary policy in the first five months to control increasing inflation and money supply (M2). The policy rate was gradually increased during the period July – November 2010 from 12.5% to 13% in July 2010 and to 13.5% in September 2010. It was further increased to 14% in November 2010. Thereafter, the discount rate was maintained at 14% for the remaining period of year 2010 – 2011 on expectations of arresting inflation, declining GDP, low private sector credit off take and reduced business activity.

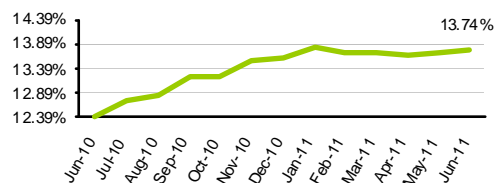
Discount Rate Movement



The Average inflation for July 10 – June 11 stood at 13.93% as compared to 11.71% in the corresponding year last year. A growth of 15.88% was witnessed in the total money supply (M2) as compared of 12.45% growth in M2 last year. The above increasing trends indicate inability of SBP measures to cope-up inflation and growth in money supply through monetary policy measures. During the period under review Pakistan received record remittances of US\$ 11.2 billion dollars as compared to US\$ 8.9 billion last year showing an increase of 25%. Foreign exchange reserves were at their highest level of US\$ 17.63 billion by June 2011. The Current Account balance stood at USD 437 million in surplus, despite trade deficit of US\$ 10.1 billion.

The average six month KIBOR increased from 12.39% in June 2010 to as high as 13.82% in February 2011 and closed at 13.78% in June 2011. The month wise trend showed increasing trend till February 2011 and thereafter slight ups

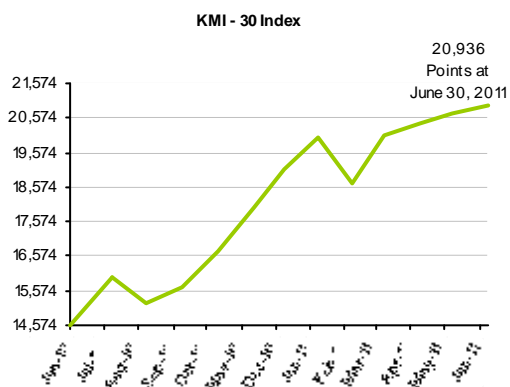
6 M KIBOR



and downs for the rest of the year.

### Stock Market Review

The stock market was mostly bullish during the year 2010 – 2011. The benchmark KMI – 30 Index which was 14,574 points at the start of the year touched its intra-day high of 21,395 points during the year and closed at 20,936 points as on June 30, 2011. The MoM movement in KMI – 30 Index was positive throughout the year except for the months of August 2010 and February 2011 during which period the MoM decline in KMI 30 – Index was 4.81% and 6.66% respectively. On year to year basis the KMI – 30 Index increased significantly by 43.66%. The bullish market sentiment was primarily attributable to the improved corporate results/ announcements and relatively cheaper valuation of local market compared to regional markets. The improved balance of payment, record high foreign remittances and increased export earnings were the other factors responsible for bullish market.



During the year under review the average monthly turnover of the exchange improved by

about 23.83% from 1.985 billion shares per month as against 1.603 billion shares per month in the corresponding period last year.

### FUND'S PERFORMANCE AND DISTRIBUTION

#### HBL Islamic Money Market Fund

The total income and net income of the Fund was Rs. 6.63 million and Rs. 5.72 million respectively during the period ended June 30, 2011. The Net Asset Value (NAV) of the Fund increased from Rs 100 per unit as on May 10, 2011 to Rs 101.4612 per unit as on June 30, 2011 giving an annualized return of 10.46% during the period. During the same period the benchmark return (3 Month bank deposit rates) was 8.53%.

The Fund has declared final dividend at Rs. 1.46 per unit in the form of bonus units for Class 'A' and Class 'B' units and cash dividend of Rs. 1.46 per unit for Class 'C' unit for the period ended June 30, 2011. The ex-dividend price of unit was Rs. 100.0012 per unit.

#### HBL Islamic Stock Fund

The total income and net income of the Fund was Rs. 5.22 million and Rs. 4.07 million respectively during the period ended June 30, 2011. The Net Asset Value (NAV) of the Fund increased from Rs 100 per unit as on May 10, 2011 to Rs 102.5007 per unit as on June 30, 2011 giving a return of 2.50% during the period. During the same period the benchmark return (KMI 30 Index) increased by 3.31%.

The Fund has declared final dividend at Rs. 1.55 per unit in the form of bonus units for Class ‘A’ and Class ‘B’ units and cash dividend of Rs. 1.55 per unit for Class ‘C’ unit for the period ended June 30, 2011. The ex-dividend price of unit was Rs. 100.9507 per unit.

#### **RATING UPDATE**

The JCR-VIS Credit Rating Company Limited (JCR-VIS) has assigned asset manager rating at “AM3+” to the Management Company.

As the Fund(s) have started operations recently, the same has not yet been rated.

#### **AUDITORS**

The current auditors M/S A. F. Ferguson & Co, Chartered Accountants have retired and have given their consent to provide internal audit services to the Fund. The Board of Directors on the recommendation of the Audit Committee have appointed M/S A. F. Ferguson & Co, Chartered Accountants as internal auditors of the Fund and M/S KPMG Taseer Hadi & Co, Chartered Accountants as external auditors of the Fund for the year ending June 30, 2011

#### **PATTERN OF UNIT-HOLDERS**

The pattern of Unit-holding as on June 30, 2011 is given in respective notes to the financial statements.

#### **DIRECTORS’ STATEMENT IN COMPLIANCE WITH CODE OF CORPORATE GOVERNANCE**

This part of the Directors’ report to unit-holders is given as required under section 236 of the Companies Ordinance 1984:

1. The financial statements, prepared by the management company of the Funds, present fairly the state of affairs of the Funds, the result of its operations, cash flows and statement of movement in unit holders’ funds.
2. Proper books of account of Funds have been maintained.
3. Appropriate accounting policies have been consistently applied in preparation of financial statements. Accounting estimates are based on reasonable and prudent judgment.
4. International Accounting Standards, as applicable in Pakistan, have been followed in preparation of the financial statements.
5. The system of internal control is sound in design and has been effectively implemented and monitored.
6. There are no significant doubts upon the Funds’ ability to continue as a going concern.
7. There has been no material departure from the best practices of Corporate Governance, as detailed in the listing regulations.
8. A summary of key financial data/performance table is annexed.
9. The Board of Directors of HBL Asset Management Limited held six meetings during the current financial year. The attendance of all directors is given in the following table:

<i>Sr. No.</i>	<i>Name of Director</i>	<i>Number of meetings</i>	
		Held	Attended
1	Mr. R. Zakir Mahmood *	5	4
2	Mr. Shahid Ghaffar	6	6
3	Mr. Sohail Malik	6	5

4	Mr. Abid Sattar	6	5
5	Mr. Towfiq H. Chinoy	6	5
6	Ms. Sadia Khan	6	5

\*Mr. R. Zakir Mahmood, Chairman has resigned from the Directorship on March 31, 2011.

### **BOARD OF DIRECTORS**

Mr. R. Zakir Mahmood resigned from the Board of Directors of the Company as both the Chairman and Director with effect from March 31, 2011. The Board places on record their thanks to Mr. R. Zakir Mahmood for his valuable contributions as Chairman since the inception of the Company. The Board has appointed Mr. Towfiq H. Chinoy, the Director as Chairman of the Board of Directors.

### **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