

# Flight to New Heights

January 2015



Pure. Profit.

## CONTRIBUTORS

**Abdul Basit**

Research & Product Development

**Aisha Kudiya, CFA**

Product Development

**Aniqa Bawany**

Research Analyst

**Muhammad Asad**

Chief Investment Officer

**Sanam Ali Zaib, CFA**

Head of Research

**Fuad Khan**

Fixed Income Fund Manager

**Uzair Azmat**

Research Analyst

**Zain Malik**

Fixed Income Fund Manager

## INSIDE

Strategy: Suit Your Investing Style

Politics: Protests to Political Unity

Economy: Beginning of Glad tidings

Equity: Bulls Unleashed

Investment Avenues: Equity-The Best Bet

Fixed Income: Slide in Sight

Path Ahead: Act Smart



# Turning the leaf: Entering the New Year

*Eighteen months into the PML-N regime, the country has been through highs and lows. Higher GDP growth numbers, soaring equity market, stable currency, successful government divestments, auction of 3G/4G licenses, strengthening relations with China and Afghanistan and the successful operation of Zarb-e-Azab have fared well for the country. On the other end, a political fad had surfaced in the past few months but tactful government play has led matters to take a positive rest. While economic progress and stability are in sight, only the turn into the New Year will tell if the peace will prevail or if the opposing forces will take the toll.*

## **Strategy: Suit your investing style**

After twenty months of investing in fixed income and the equity market, the three investors featured in our March 2013 issue have by now steadily made healthy returns, which not only covered inflation but increased their wealth substantially. Let us first see how their investment values have fared before we go ahead with this year's market movements and expectations.

## **Politics: Protests to Political Unity**

The past few months have seen a myriad of political events with yet uncertain consequences. On one hand, political parties were immersed in finger pointing about the sanctity of Elections 2013 while on the other hand, Taliban retaliated to Zarb-e-Azab by attacking Peshawar's Army Public school which has been the bloodiest act of terrorism in the country's history. While the lifting of moratorium on death penalty and unity of all political parties to combat terrorism may be positives on political front, uncertainty remains high amidst rising TTP threats.

## **Economy: Beginning of Glad Tidings**

The positive uplift that the economy witnessed following the PML-N government coming to power has lately been subdued. The economy has recently come under pressure due to opposition parties sit-ins since August 2014. The sit-ins resulted in an estimated loss of PKR 1 Billion, but with issuance of Sukuk bond and expected release of US\$1.1 billion by IMF in December, situation has started to improve.

## **Equity: Bulls Unleashed**

The stock market (KSE-100 Index) has provided an annualized PKR return of approximately 18% in last ten years. It provided an annualized CAGR USD return of 14% over the last ten years beating most of its peers despite political and economic volatility- a living example of a resilient market! With a blend of positive expectations on the economic end alongside political hitches, the KSE-100 has touched all-time highs. With improving economic fundamentals, we expect the stock market to continue its journey to touch new highs.

## **Investment Avenues: Equity-the best bet**

Comparison of all available investment avenues reveals that equity returns outshine all others. While Pakistan's stock market returns outperform many others in the region, the return of Meezan Islamic Fund (MIF), the flagship fund of Al Meezan has successfully surpassed KSE-100 return and provided its investors optimum risk adjusted returns.

## **Fixed Income: Slides in sight**

As SBP resumed its monetary easing stance in second quarter of FY 2015, after a gap of one year, the policy rate has been reduced to a single digit figure of 9.5%. While the equity market looks set to surge in the face of policy rate cut, fixed income market can expect a gradual slide of another 50bps cut in discount rate in the next monetary policy on account of continuous improvement in macro-economic variables and more than 40% decline in oil prices in Calendar Year 2014.

## **Path of Action: Act Smart**

Though the past few months have been immersed in a myriad of political and economic events, the equity market has shown resilience and has not borne the brunt of it. With KSE-100 aiming for record highs, it is an ideal time for investors to invest a portion of their portfolio in equities to make high stock market gains.

**B**efore trending towards the market movers of current and upcoming years, let us first glance back at our three valued investors whom we introduced in our issue of “Market March- Enroute to Elections (March 2013).” In the last issue, “Balancing Quest-Inching towards recovery” we had shown how well Mr. Ahmed, Ms. Anum and Mr. Bilal had fared from our proposed investment allocations after completing one year of investment. Now, after twenty months beginning from April 2013 to November 2014, let us see where their portfolio values stand given the actual equity and fixed income fund returns. The table below shows the actual investment done by the three individuals along with increase in values and annualized returns.

	Portfolio Category	Investor Profile	Investment Value (in PKR)		%	
			Actual Investment (April 2013- November 2014)	Investment value (as of November 2014)	Total Return	Annualized Return
Mr. Ahmed	Aggressive	- Age 27 - Fresh graduate with first job - High risk tolerance - Invests PKR 25,000 monthly in 75% equity and 25% fixed income	500,000 (PKR 25,000 per month)	582,607	45.3%	25.1%
Ms. Anum	Balanced	- Age 42 - Savings for children's education and future needs - Moderately high risk tolerance - Invests PKR 50,000 monthly in 50% equity and 50% in fixed Income	1,000,000 (PKR 50,000 per month)	1,128,520	33.7%	18.9%
Mr. Bilal	Conservative	- Age 57 - Father of three - Moderate risk tolerance - Invests PKR 100,000 monthly in 25% equity and 75% in fixed Income	2,000,000 (PKR 100,000 per month)	2,185,794	22.7%	13.0%

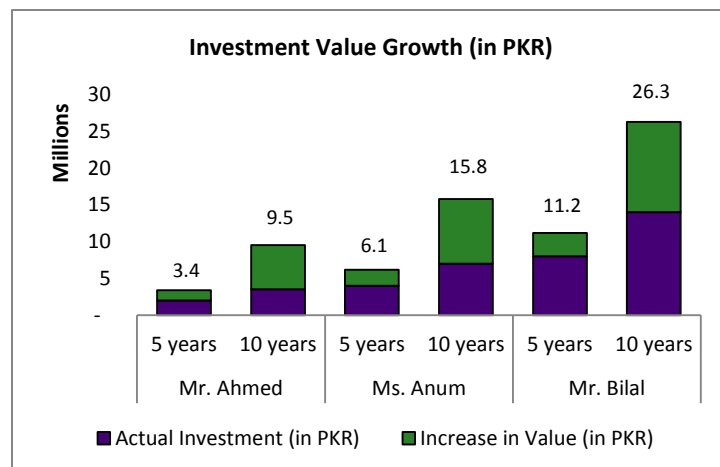
**Note:** Returns have been calculated using actual Karachi Meezan Index Fund -30 (KMI-30) and Meezan Sovereign Fund (MSF) using GIPs method.

Looking at the above returns, we can see that Mr. Ahmed had the highest return because his portfolio allocation was primarily composed of equity. The Shariah-compliant KSE Meezan Index-30 (KMI-30) index has grown by around 32% on an annualized basis in the twenty months being evaluated. Hence, Mr. Ahmed benefited the most from the equity market. Given the risk tolerance and investor profile of Ms. Anum and Mr. Bilal, they also reaped the benefits of the stock market rise as their portfolios earned a much higher return than the fixed income return of around 8% in the same period.

## Expected future portfolio growth

Assuming that all the three investors continue to remain invested with same allocations in the going future; we can expect their portfolio values to take to new heights after 5 and 10 years from today as shown in the graph on the right.

**Note:** Al Meezan tries to maintain a prudent stance on the stock market expectations in its communication to investors; hence, relatively conservative returns are used in the projection





**A**fter a year and a half into the new government regime, the political landscape of the country has been driven by both positive and negative forces. The past few months have especially witnessed a series of sporadic events ranging from political protests to the worst-ever act of terrorism in the country, which have tested and well survived the determination of the present government.

## Government and Military takes the lead

After a month long effort by the government to negotiate with Tehrik-e-Taliban Pakistan (TTP) failed, the government and military initiated Zarb-e-Azab operation in North Waziristan in June 2014 to eliminate terrorists. After five months of improved law and order situation and no major throwbacks from TTP, it finally retaliated on December 16, 2014 in the deadliest terrorist attack in Pakistan's history by killing 145 people including 132 children in Peshawar's Army Public School. The Peshawar carnage has been a turning point for the country's politics as it led PTI to immediately call off its protests and united all the political parties in intensifying Zarb-e-Azab and their efforts to combat terrorism by chalking out a comprehensive 'National Action Plan.' Moreover, the moratorium on death penalties in terrorism related cases has been lifted by PM Nawaz Sharif and the process of executing militant prisoners has begun, with so far six capital executions done. While death penalties may seem a solution to eliminate terrorists; but with the rising threats from TTP on the reversal of moratorium, uncertainty remains high as to how much is on stake for the people of this country.

## Comparison of Post-election vs Pre-election scenario

- More inter-party conflicts
- Initiation of Zarb-e-Azab leading to better law and order situation; fewer suicide attacks
- Fewer US drone strikes
- Improved Governance
- Heated India-Pakistan relations
- Favorable relations with China and Afghanistan

## Clash of opposing forces

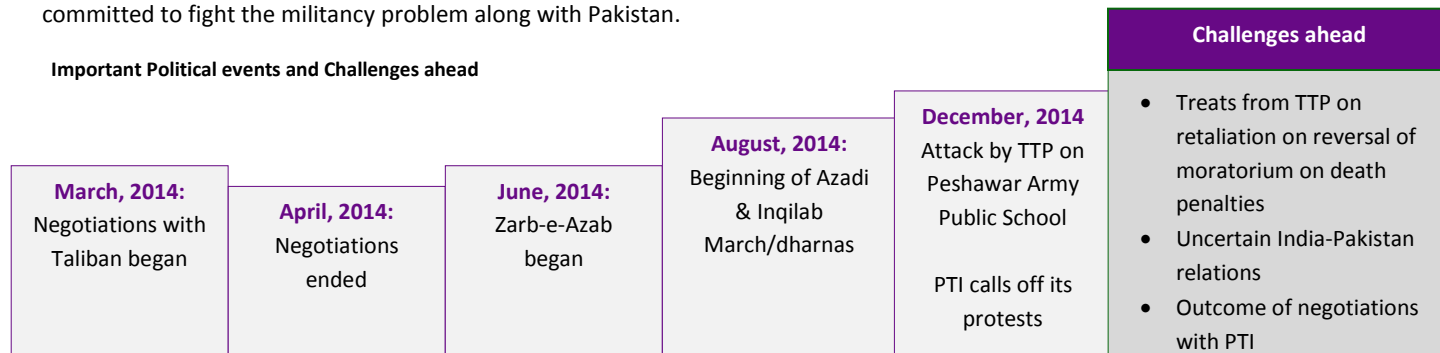
General Elections of May 2013 drove the mainstream politics of the country from August 2014 until the recent Peshawar attack. Pakistan Tehrik-e- Insaf (PTI) and Pakistan Awami-Tehrik (PAT) denounced the election results and made a call to topple the government on Independence Day through their sit-ins and 'dharnas' which momentarily bought instability to the country's political scenario; however, tactful safe play by the government kept political unrest under control. With terrorism taking the forefront of politics since Peshawar attack, PTI has called off its protests. Moreover, negotiations between the government and PTI team have taken a positive tone as both seem in tandem to develop a judicial commission to probe the Elections 2013. However, it is yet to be seen how events unfold into the New Year and what course of action the talks take.

## Relations with Neighbors

**India- Untying cordiality:** Since the hardliner Narendra Modi of BJP emerged victorious in the Indian elections in May 2014, the relations between India and Pakistan have taken a bitter turn. The once positively moving ties are now mired in accusations and blame game. From cross-border firings to the grant of bail to the main accused in Mumbai 2008 attacks by a Pakistani court to the Modi government taking a hard stance on Kashmir; the fate of this historically skeptical Indo-Pak relation stands ambiguous.

**China, Afghanistan – positive progress:** While relations with India are on a rough path, the friendly relations are on the cards with Afghanistan and China. China has committed to invested \$44 Billion in Pakistan over the next five years while Afghanistan has committed to fight the militancy problem along with Pakistan.

## Important Political events and Challenges ahead

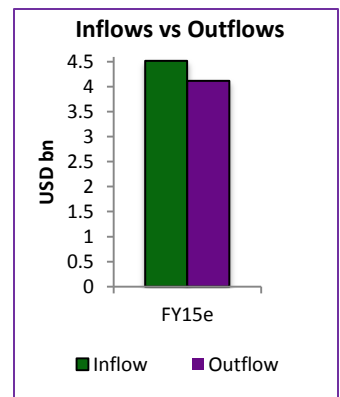
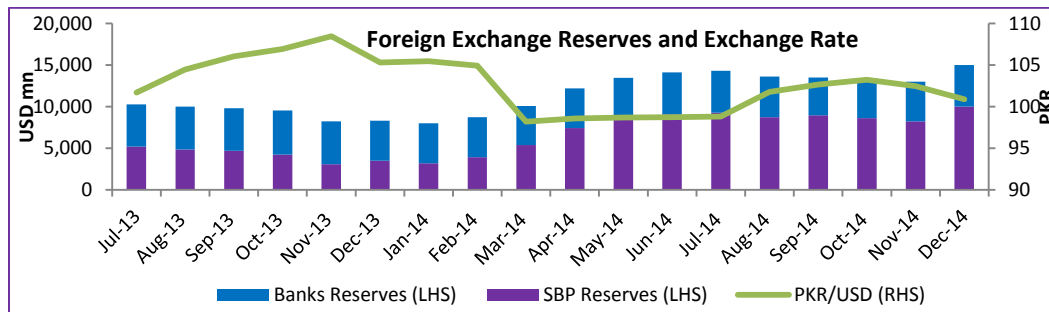


## Economic Recovery remains strong despite political challenges

After one and a half year in office the government has been able to achieve most of the targets it had set for itself. The comprehensive economic agenda that the government introduced was not devoid of setbacks but overall progress has been made in key areas. The country was able to achieve economic growth of 4.1% in the last fiscal year and overall tax collection increased by 13%. After recording a budget deficit of 5.7% in FY14, the government has kept a very optimistic target of 4.8% for the current year. With improving economic indicators, the focus is towards economic growth which is contingent majorly on foreign inflows which would curtail the crowding out effect that Pakistan has been experiencing and pave way for private sector credit off take. Confidence has started to build in the economy which is reflected by the 19.1% increase in FDI in the first five months of current fiscal year compared to last year.

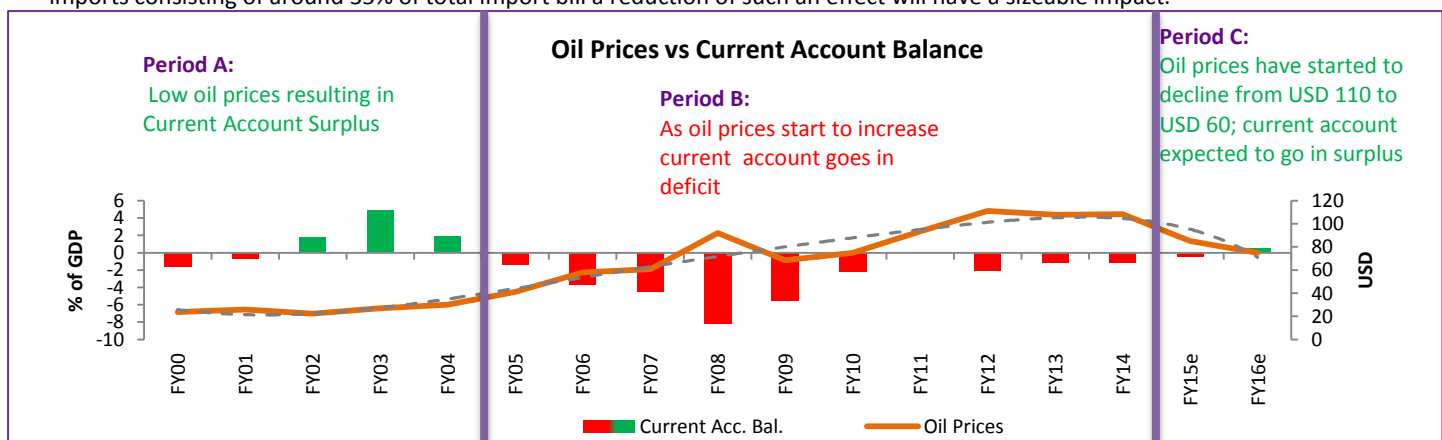
## IMF – Dictating Pakistan’s economic reforms

IMF’s Extended Fund Facility, a \$6.75bn program providing the country with much needed inflow of funds in a period of 36 months started from September 2013. The conditions of this facility have made Pakistan implement much needed economic reforms. Due to these reforms, confidence has started to build up in the economy with PKR appreciating again after sliding to Rs111/USD earlier. Major confidence in the economy has emerged after successful disbursement of 5<sup>th</sup> and 6<sup>th</sup> tranche from IMF totaling \$1.1 billion. Apart from IMF the privatization process is expected to continue and after ABL divestment, HBL and NPCC are next in-line for divestment. Furthermore, the country has also received inflows from floatation of international sukuk of USD 1bn.



## Declining Oil Prices – Fortune favors Pakistan

After years of paying substantial foreign exchange for oil imports, a respite has started to emerge with a decline in oil prices. This decline of over 40% in oil prices has turned the situation favorable for Pakistan. Being an oil importing country, the dip in oil prices will go a long way in helping the overall balance of payment situation and specifically the current account balance. With oil imports consisting of around 35% of total import bill a reduction of such an effect will have a sizeable impact.



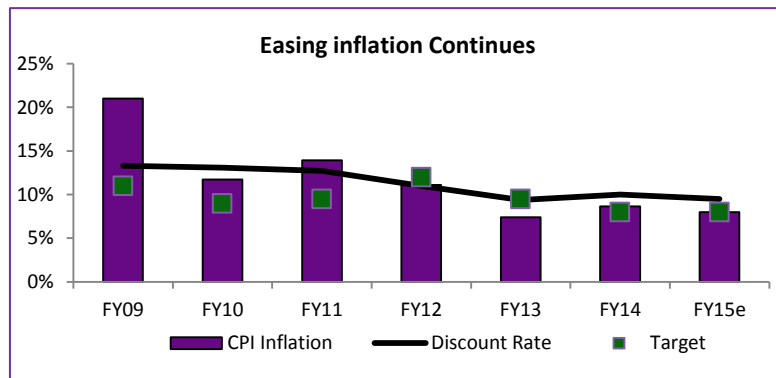
As the graph on the previous page shows, there is a negative correlation between current account balance and oil prices. The country may take advantage of the situation as low oil prices will have a chain effect on the cost of production.

### Easing Inflationary pressure

A staggering decline has been witnessed in inflation numbers with six month FY15 CPI inflation averaging at 6.1%YoY. The month of November recorded a decade-low figure of 3.96% inflation YoY. Major reasons for such a decline is due to the high base effect from last year and also the declining oil prices coupled with low food inflation and the deferral of rise in electricity tariff. With core inflation posting a steady decline and expectation of depressed oil prices; we can expect low inflation to continue for the current fiscal year.

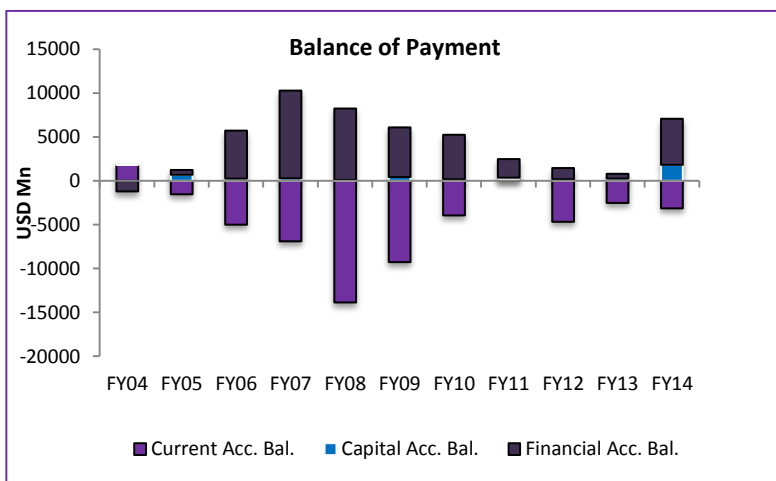
### Widening Trade Deficit

External Account is still facing difficulties on the back of increasing imports and the comparatively lower increase in exports. For the five months of current fiscal year the trade deficit has widened by 34.78% due to decline in exports of 2%. Import bill on the other hand increased by 5.9%. However, the decline in oil prices is a ray of light and is going to reduce the import bill of the country. However, to increase exports of the country, major reforms in energy sector would contribute towards the uplifting of the textile sector which is currently facing the brunt of the energy crisis.



### From consolidation towards growth:

With the decline in inflation and imminent cut in discount rate we can expect increase in credit off-take to private sector resulting in the higher economic growth. The period of monetary tightening has provided much needed control over inflation; therefore, time is ripe to move towards the growth phase. With monetary easing manufacturing sector is expected to perform well for the rest of current fiscal year. The impending decline in import bill due to decline in oil prices will provide support from current account and help in achieving the target deficit of 4.7% of GDP.

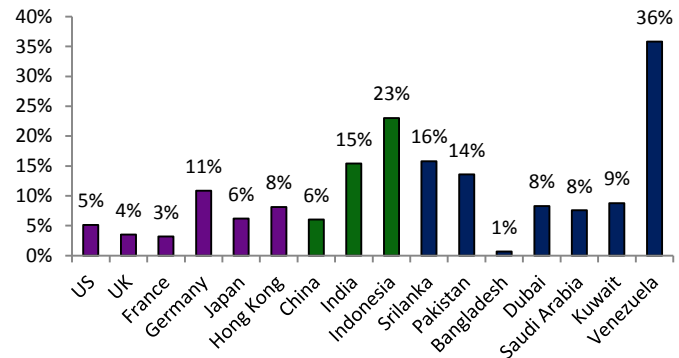


Indicators		FY08/09	after 5.5 years	Positive/Negative
Inflation	%	21	6.5	Positive
Current Account Surplus/(Deficit)	% of GDP	(5.50)	(2.00)	Positive
KSE 100 Index		7,162	32,131	Positive
P/E	x	9.4	8.5	Positive
Dividend Yield	%	5.8	6.4	Positive
Exchange Rate	PKR/USD	66	101	Negative
Discount Rate	%	14	9.5	Positive
Oil Prices	USD	91	60	Positive

The stock market in Pakistan has provided an annualized PKR return of approximately 19% and annual USD return of 14% in last ten years beating most of its peers despite political or economic volatility - A living example of a resilient market!

The stock market after posting a return of 33% in calendar year (CY) 2013 is up by 27% in CY2014 also. Foreign buying remained intact in domestic bourses with inflows of USD155mn during the last quarter with cumulative portfolio investment of USD 376 mn in CY14 so far. Further, IMF also released tranche of USD 1.1 bn in December'14. Moreover, GOP successfully completed sukuk transaction. Sukuks were oversubscribed by 5 times than the initial target of USD 500 million; USD 1 billion of the total subscription of USD 2.3 billion was accepted. In light of the investors' interest in the sukuk transaction, we believe that Pakistan continues to remain a strong case for investments to fetch attractive returns.

**KSE -100 Index continues to shine along with regional economies**



#### Our view on the Equity Market!

**Base Case:** Equity Market has provided an annualized return of 29% in the last 5 years i.e. Post 2008-2009 recovery phases. Last year the Economy of Pakistan grew at 4.1% for the first time in five years. We expect the corporate profitability to grow at 16% and an average dividend yield of 6%, our KSE-100 Target is 34,800 points for June' 15.

**Bear Case:** In case the political situation worsens and earnings growth remains low at 10% to 12%, we expect market multiples might deteriorate in which case we forecast KSE-100 to consolidate at 31,000 points.

**Bull Case:** In the scenario that the stock market does not take negative impact of the political turmoil, and the market P/E further improves due to influx of foreign buying, our target will be 38,430 points for June' 15.

#### Fall in crude oil Prices and single digit inflation – Positive impact on the Macro front

Crude oil prices slipped from \$101/bbl at the start of FY14 to current levels of \$57/bbl – over 40% down. In an import based economy like ours, with oil being 35% of our imports, fall in crude oil prices means lower subsidy and lessening pressure on external accounts. If we take into consideration impact of oil prices decline on import bill, it is expected to fall by over USD 3 bn per annum. This will result in major improvement in current account and help keep exchange rate stable. Moreover, some benefits of this would eventually trickle down to manufacturing sector and to some extent agricultural sector as well. In view of the oil, coal and commodity prices, single digit inflation is here to stay with stable agric-product prices. This will bear positive fruit for the market.

#### Currency Stability

The appreciation of Rupee followed by issuance of Euro bonds and funds from friendly countries helped improve the stability of Rupee. Going forward a stable rupee coupled with decline in crude oil prices will pave way for strong growth of the corporate sector.

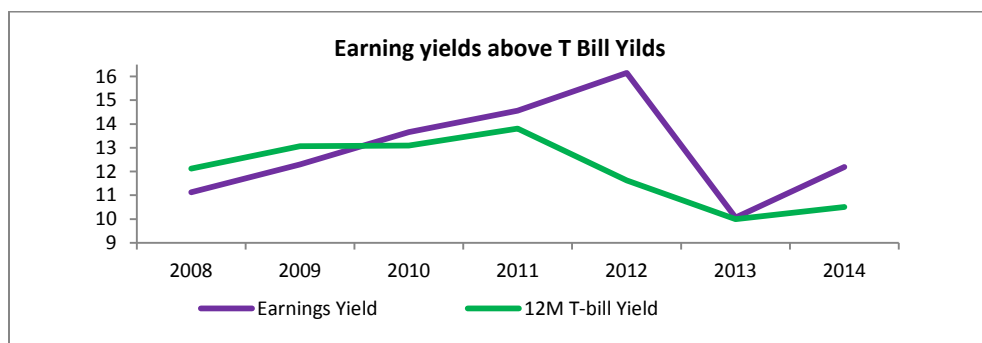
## Monetary Easing

With the softening of global commodities, inflation has also come down and is hovering around 6% for the first time in around a year. Further, fall of over 40% in international oil prices and local oil prices paves way for a discount rate cut. In this reference SBP cut the discount rate by 50bps in the monetary policy announced in Nov'14 after keeping it stable for almost a year. Further, monetary easing cannot be ruled out in the coming months.

Softening of discount rate bodes well for the equity market, as stocks become more attractive than bonds and investors look towards the stock market to maximize their returns. We expect a 2% to 3% positive impact on the stock market of every 50bps cut, and an increase in investor confidence.

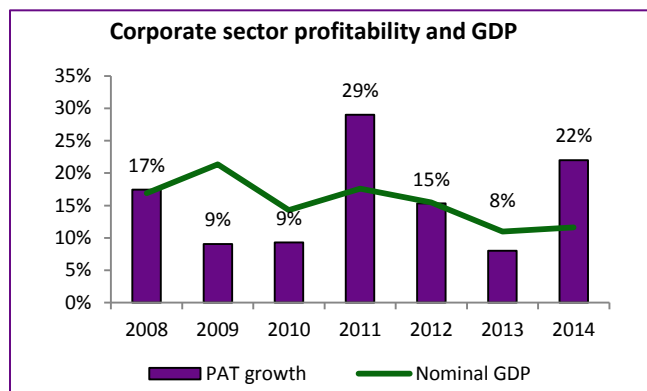
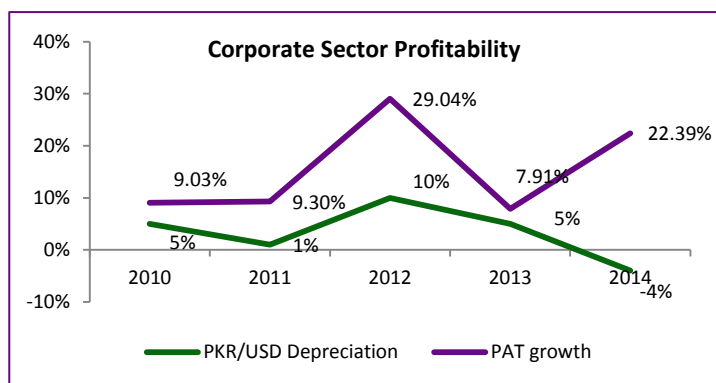
## Equity marking earning yield above T – Bill Yield

The earnings yield for our universe of companies is above the current 12 month T bill Yield, indicating attractive returns and further growth potential.



## Corporate Sector Profitability

Comparing corporate sector profitability growth (Topline Research House Universe: 80% of KSE-100 companies) with real GDP growth over the years reveals that both variables move in a similar direction. Low growth rate years of 2008-09 resulted in subdued profitability. The expected 4.1% GDP growth witnessed in CY14 will result in improved corporate sector profitability leading to a positive Impact on the equity market.

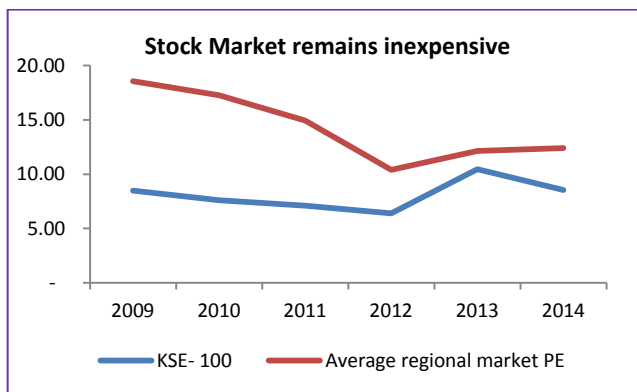
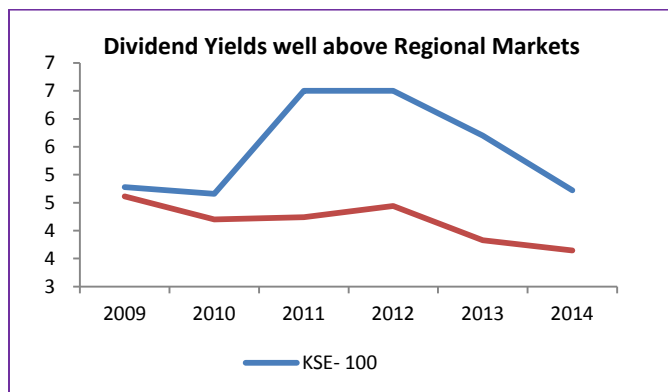


**MSCI Reclassification:** In its reclassification of Frontier Market Index, MSCI has decided to implement the changes in its Frontier Market Index methodology proposed back in Mar-14. The combined effect of change in index methodology and exit of two heavy weights (UAE and Qatar) from Frontier Market Index to the Emerging Market Index has resulted in Pakistan's weight in the index rising to 8.9% from 4.3%. PSO, Lucky and BAHF have been added to the Frontier Market Index. This we believe will bode well for the local bourse, which trades at a 36% discount to the MSCI Frontier Market Index's average PER of 11.7x.



### Attractive Valuations (compared with regional Peers)

Despite the uncertain political and economic scenario, KSE-100 index will still be attractive based on cheap multiples and strong dividend yields. With market currently trading at a trailing at a P/E of 8.5 xs in line with the 10 year average of 9.1 xs, it seems that stock market is still not expensive.



Alhamdulillah


**Al Meezan**  
 Investment Management Ltd.

**GETTING AHEAD OF THE REST!**

Once again **Al Meezan** has proved its ability to deliver products and services par excellence. We are extremely grateful to Almighty Allah on this achievement and committed to provide the best investment solutions for you!

**AM2+**

THE HIGHEST MANAGEMENT QUALITY RATING AMONGST FUND MANAGERS IN PAKISTAN.

For Investment Services and Advice:  
 CALL: 0800-HALAL (42525) | info@almeezangroup.com  
 (021) or (042) 111-633-926 (111-MEEZAN) | www.almeezangroup.com  
 SMS: "INVEST" TO 6655 | www.facebook.com/almeezangroup  
 Visit any Al Meezan Office or any Meezan Bank Branch across Pakistan | www.twitter.com/almeezangroup

\*JCR-VIS

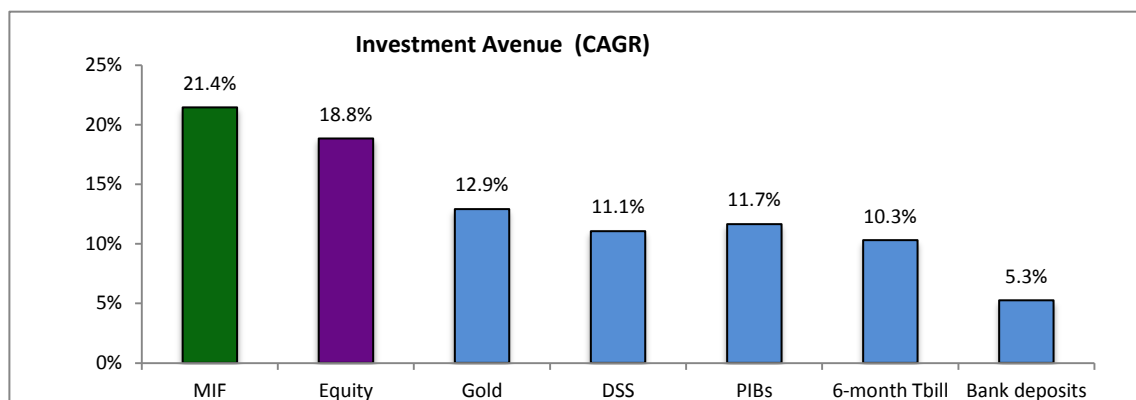

 A Subsidiary of  
**Meezan Bank**  
 The Premier Islamic Bank

Risk Disclosure: All investment in mutual fund are subject to market risks. Past performance is not necessarily indicative of the future results. Please read the Offering Document to understand the investment policies and the risks involved.

Equity investments are prone to short term market volatilities but the equity markets are often the best investment avenue for investors with a long term view. When we compare available investment alternatives as shown in the table below, we see that the KSE-100 provided the highest investment return over the last ten years, an annual compounded return of 19%, followed by annual compounded return of 13% from gold investment.

In the current economic scenario with low inflation, inflow of Funds from IMF, privatization proceeds and expected improvement in the current account due to declining oil prices coupled with a stable Rupee, the stage is set for a rally in the local bourse!

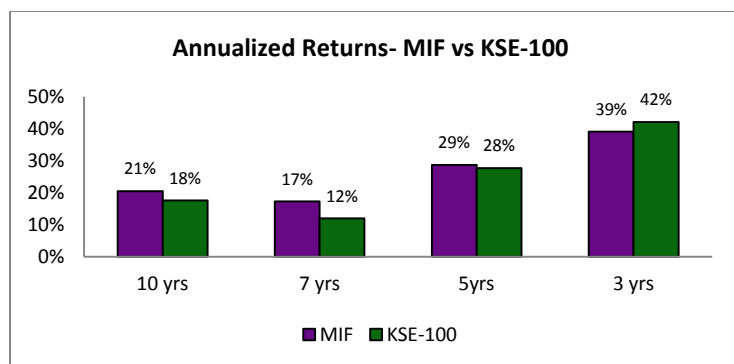
Investment Avenues							
	MIF	KSE-100	Gold	DSS	10 Year Gov bonds	6-month Tbill	Bank deposits
FY05	40%	41%	10%	8%	8%	5%	3%
FY06	30%	34%	41%	9%	9%	9%	3%
FY07	29%	38%	5%	10%	10%	9%	4%
FY08	0.3%	-11%	42%	10%	11%	10%	6%
FY09	-30%	-42%	0%	12%	14%	13%	6%
FY10	31%	36%	34%	12%	12%	12%	6%
FY11	39%	29%	21%	13%	14%	13%	6%
FY12	19%	10%	6%	12%	13%	12%	5%
FY13	51%	52%	-23%	12%	12%	10%	7%
FY14	29%	41%	8%	12%	12%	10%	7%
<b>CAGR</b>	<b>21.45%</b>	<b>18.84%</b>	<b>12.91%</b>	<b>11.06%</b>	<b>11.65%</b>	<b>10.29%</b>	<b>5.26%</b>



## Meezan Islamic Fund – From Legend to Legacy

Meezan Islamic Fund (MIF) was launched in August 2003 as the first open-end mutual fund of Al Meezan. The objective of MIF is to invest in Sharia'h compliant equities while maximizing total return for investors by focusing on both capital gains and dividend income.

Having completed 11 years of operations, MIF has to its credit the recognition of being the industry's largest private sector equity fund. With current Assets under Management (AUMs) of over PKR 20 Billion, MIF has accomplished remarkable performance in a short span. It also won the Lipper award for the 'Best Fund' over 1, 2, 3 and 5 year categories for among the global Islamic funds for the year 2014. The Lipper Fund Awards are part of the Thomson Reuters Awards for Excellence.

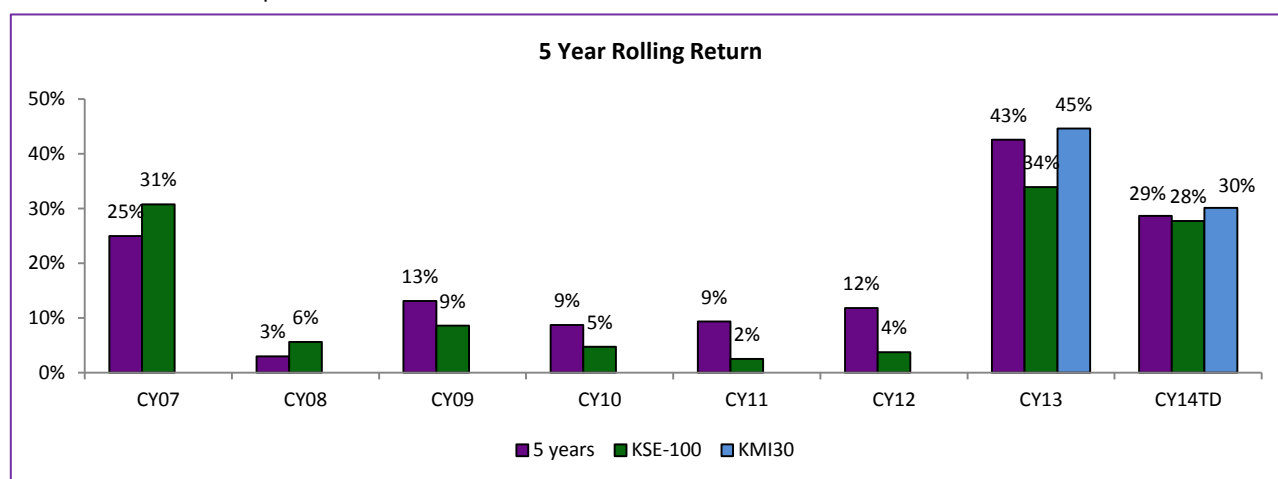


(CAGR)	PKR		USD Adjusted	
	MIF	KSE-100	MIF	KSE-100
10 yrs	21%	18%	14%	11%
7 yrs	17%	12%	9%	4%
5yrs	29%	28%	23%	23%
3 yrs	39%	42%	33%	36%

Compared to other viable investment avenues, equity has remained the desired investment avenue for many looking to invest over long time horizons and willing to withstand short to medium term volatility. It is worth noting from the chart above that MIF has consistently outperformed KSE-100 over the years. One of the reasons for this is that while KSE-100 is exposed to the market volatilities of all the companies in the index, MIF invests in only Sharia-compliant companies that resist the market swings better.

### Long term horizon – The Winning Strategy

Equity markets are usually volatile in the short run and Pakistani market even more so. This often strains the investors return potential. However, the stock market is resilient in the long run, and beats the short term volatilities. Furthermore, Equity investments are subject to Capital Gains tax, which is exempted for investors with a holding period of two years or more – Adding to the benefits of long term horizon. To justify the point made above, let's have a look at the graph below. The graph below shows five year rolling return of our fund, MIF and the local indexes. So for eg. 5 year rolling return for CY07 is for the cumulative annual aggregate return period CY03-CY05 and so on. We see that CY09 onwards, the 5 year annual compounded return of MIF beats the return for that period of the local bourse.



### Grow your investment in Meezan Islamic Fund (MIF)

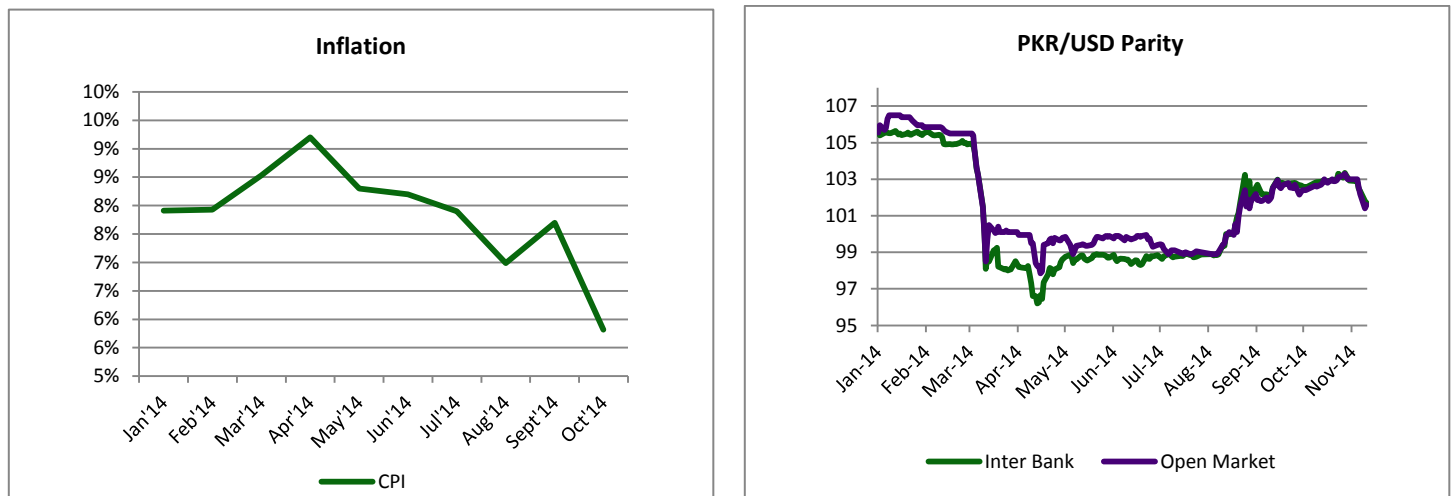
Assuming an investor made an initial investment of PKR 100,000 in MIF on the day the Fund was launched and did not make any withdrawals. His investment would now have grown to PKR. 899,000/- earning him an annualized return of 21%.

Over medium to long term, investment in equity is the best option to gain high returns. Even during less favorable market conditions, research and fund management team at Al Meezan Investments ensures that the best equity picks are included in MIF which help it sustain its consistently high returns against all industry peers and available investment avenues.

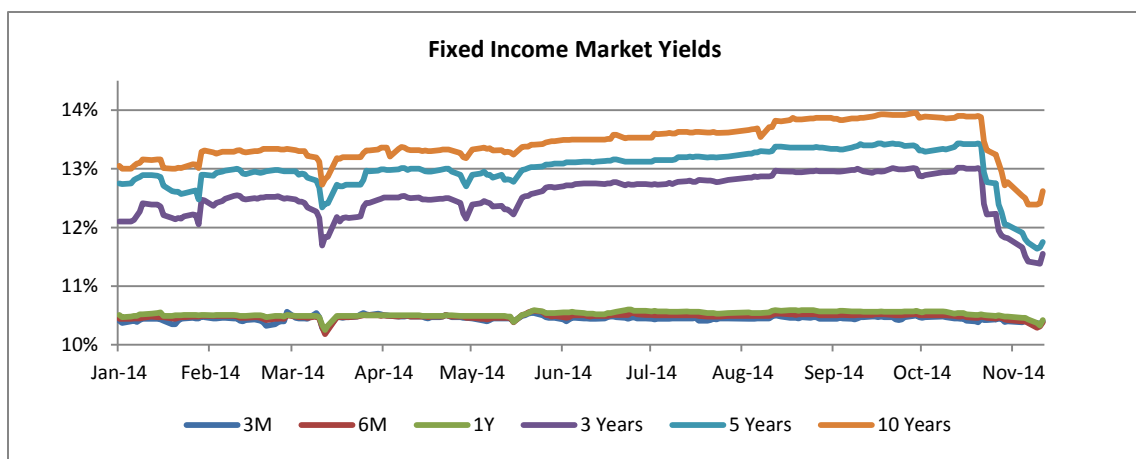
At various points while progressing in calendar year 2014 (CY14), the market increasingly anticipated a discount rate cut but mixed performance in different domains had prevented the central bank from reverting back to its monetary easing stance. Major improvements in macroeconomic indicators, including increase in foreign exchange reserves, the rupee strengthening against the greenback, lower fiscal deficit, higher growth rate and modest monetary growth, were all encouraging factors which used to form the basis of this expectation. However, inflationary pressures mounting in Ramadan around mid-year followed by Rupee's devaluation and delay in secondary public offerings of its stake in various corporates by the Government of Pakistan largely on account of political unrest, remained decisive factors in the central bank's prudent approach to keep the policy rate unchanged till the first quarter of fiscal year 2015.

The SBP, in its most recent MPS (Nov 15, 2014) however, slashed the discount rate by 50bps bringing it down to 9.50% after a full year of keeping it at 10%.

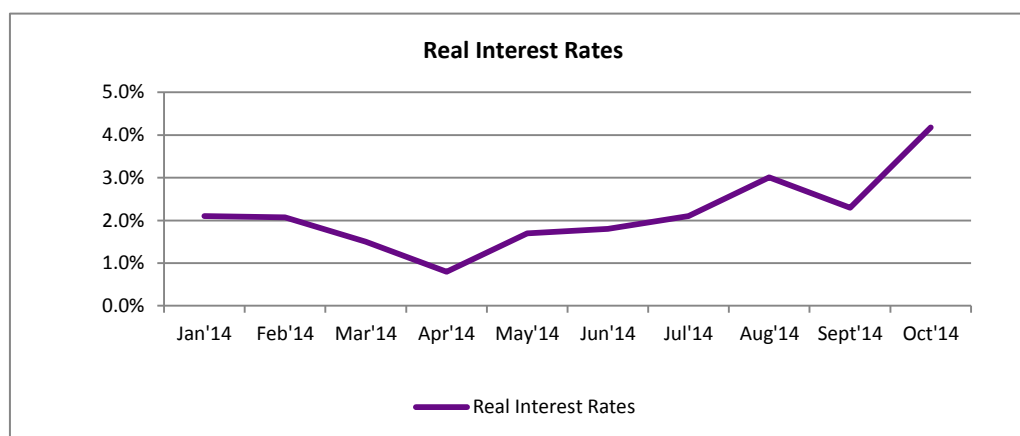
A snapshot of fluctuating Inflation and Rupee/Dollar parity for the current year is given below:



In the month of October 2014, the CPI clocking in at 5.82% (lowest in the preceding 14 months) had already fuelled the discount rate cut anticipations in the money market. Consequently, the yields of longer tenor Pakistan Investment Bonds were dragged down on the back of heavy demand for fixed rate instruments from the market. A graphical representation of the same is being presented hereunder:



With this cut in the key rate, the overall interest rates and yields have been adjusted downward, a snapshot of which can be observed in the following table:



	Before Monetary Easing (July 2011)	Pre DR Cut (October 2014)	Difference	Post 50bps DR Cut (November 2014)	Difference (Since July 2011)
<b>SBP Discount Rate</b>	<b>14.00%</b>	<b>10.00%</b>	<b>-4.00%</b>	<b>9.50%</b>	<b>-4.50%</b>
<b>GoP Securities</b>					
6- Months T-Bills	13.76%	9.62%	-4.14%	9.47%	-4.29%
10-Year Pakistan Investment Bonds (PIBs)	14.07%	13.37%	-0.70%	11.71%	-2.36%
Ijarah Sukuks (3 year)	14.00%	8.20%	-5.80%	8.58%	-5.42%
<b>Saving Schemes</b>					
Special Saving Certificates - 3 years	14.00%	11.50%	-2.50%	11.60%	-2.40%
Defense Saving Certificates - 10 years	13.55%	12.26%	-1.29%	12.75%	-0.80%
<b>Corporate Instruments</b>					
TFCs (AA- rated and above; 2 to 8 Years)	14.50%	11.43%	-3.07%	11.30%	-3.20%
Corporate Sukuks	15.70%	10.32%	-5.38%	10.73%	-4.97%
Bank Placement AA Rated and above)	12.50%	9.25%	-3.25%	9.00%	-3.50%

#### Islamic Finance Impetus: Liquidity management measures by SBP

One of the most pressing issues faced by the Islamic banking and finance industry had been the absence of an effective liquidity management system/framework which combined with other factors like development of Islamic inter-bank money market, short term liquidity management instruments/solutions and availability of a Shariah compliant discount window for IBIs, was an issue that the SBP had acknowledged in its strategic plan for Islamic Banking Industry for 2014-2018.

In line with its strategic plan, the State Bank of Pakistan conducted the first-ever Open Market Operation (OMO) for an outright purchase (Bai Muajjal) of Government of Pakistan Ijarah Sukuk-9 (GIS). This OMO transaction was used to effectively wipe-off a significant amount of prevailing excess liquidity in the Shariah compliant end of the market. The opportunity was availed by 16 counters to place their liquidity of PKR 45.5 billion for one year at attractive yields in the range of 9.95% to 9.97%. It is pertinent to note that the yields offered by the State Bank of Pakistan were at par with those in the OMO transactions conducted for the conventional banks; this was taken as a positive signal on the Central Bank's intentions to support the growth of Islamic finance in the country.



To extend its efforts further, State Bank of Pakistan held an Extraordinary General Meeting of Ijarah Sukuk certificate holders on 10th November 2014, whereby, in line with the agenda of the meeting, required resolutions were unanimously passed for maturity extension of Ijarah Sukuks IX through XIII with a cumulative worth of PKR 233.8 billion, by one year post which the new maturity of all these Ijarahs is November 21, 2015.

Such measures reinforce the central bank's commitment to fully support development of a sound and stable financial system that meets the Shariah principles.

### Expectations Going Forward

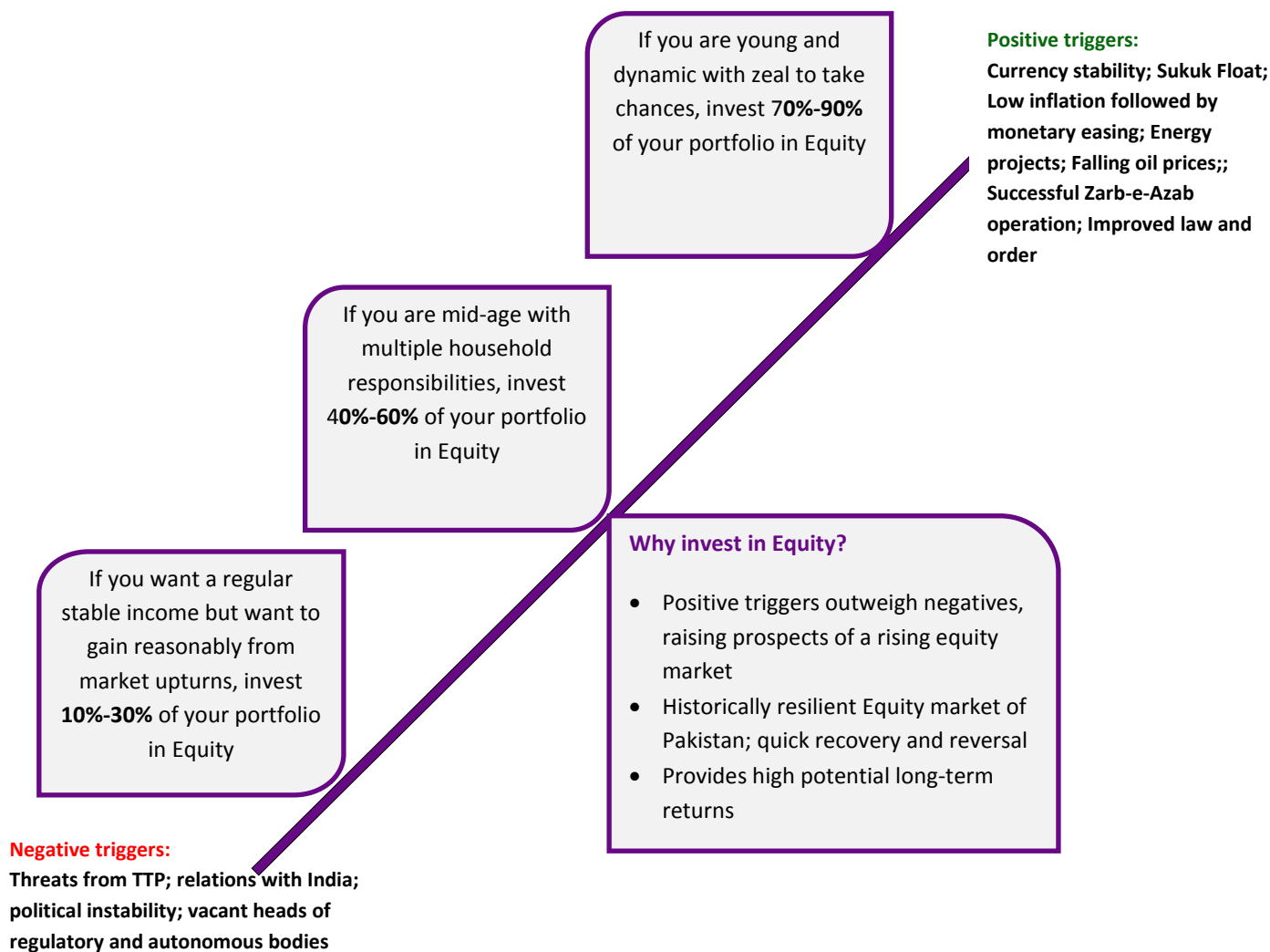
With the government undertaking discount rate cut despite IMF's preference of a tight monetary policy, it is evident that the government will continue on its monetary easing stance whenever deemed possible in light of improving economic fundamentals.

Considering the continuous improvement in macro-economic variables and expanding foreign exchange reserves position coupled with declining oil prices and much healthier FDI expected to be realized over the next few years, the government can be expected to continue on its monetary easing stance and another 50bps to 100bps cut in the discount rate in early 2015 might be in the pipeline.



*Looking back at Year 2014; patchy times met serenity and the year fled by a swing. However, the positives fared wholesomely well for the country in-spite of the sporadic unfavorable forces.*

Entering the New Year, the market currently reflects promising vibes. While the Equity Market is towering new heights in light of positive economic developments and subdued political rifts, the uncertainties surrounding the future course of combating terrorism cannot be overruled. Nonetheless, our stance stands to make money while the sun shines. With the growing momentum in Equity Market, we advise a maximum investment in stocks in line with your risk tolerance level.



*Investors need to focus more on long-term plans that yield substantial returns through every boom and bust cycle. Moreover, a greater focus on research and analysis and prudent fund management aimed at reducing risk and protecting investments should be the priority. For such tailored and personalized investment advisory and allocation services, investors are advised to approach our professional investment advisors. Just dial 0800- HALAL (42525) or SMS "INVEST" to 6655, and one of our representatives will contact you promptly.*

**Disclaimer:** The Information presented herein has been obtained or derived from sources believed by Al Meezan to be reliable. However, any projections contained are estimates only and may not be realized in the future. Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance.