



Pure. Profit.

Market March - En Route to Elections

January 2013

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Into the realm of 2013..

Al Meezan vows to strengthen its commitment towards its investors in providing innovative Sharia'h compliant investment solutions.

With markets on a constant move, Al Meezan will consistently strive to keep its investors at par with market dynamics to facilitate informed & value-added investment decision making.

*Let us commit to integrate faith in finance, beat the controversies & shun unethical, socially irresponsible avenues to grow the Islamic way towards a healthier future in this world and the **Hereafter**.*

Pressing Issues: New Year, New Hopes?

Strategy – what investment style suits you? With the dawn of New Year and elections just months away, the market dynamics are expected to be on a continuous ride. To help you make well-informed and value-based investment decisions, four different investment strategies have been devised on the basis of investor characteristics. Most likely you will come under the ambit of one of the four investor personality types. Keep reading to learn more!

Politics – hope or despair? With the elections due in the first half of 2013, Islamabad's long march along with other on-going unsettling political events continue to take a toll on Pakistan's political front and capital markets. Taking a look at the country's history, market returns have performed progressively well both pre and post elections. However, it is yet to be seen if history will repeat itself or if these elections will prove otherwise to pave the way for smooth transition from one term to another.

Economy – setbacks to continue or revival to set in? While low FDI, private investment and a consistently weakening Pak Rupee have plagued the country's economic stability, the hope for positivity stems from record low inflation, record high remittances and easing monetary policy to boost private expenditure. The two tranches of Coalition Support Fund (CSF) amounting to USD 1.8 billion in the first half of fiscal year 2013 came to the rescue of declining foreign exchange reserves. However, the upcoming hefty IMF re-payments are expected to put pressure on the already tweaking reserves. Despite all these weaknesses, current account surplus was recorded for the first half of fiscal year 2013 on the back of blossoming remittances and inflows from CSF.

Fixed Income – concerns for declining yields. As SBP continued its monetary easing stance in first half of FY 2013, it took the policy rate to a single digit of 9.5%. While the equity markets surged in the face of policy rate cuts, the trend is expected to stabilize. With fixed income returns expected to stabilize at current rates during early 2013, discount rate may take an upturn in the wake of Pakistan's entry into a new IMF program.

Equity – will it continue to shine in 2013? While other economic parameters faced a slowdown, equity markets displayed phenomenal performance over the last three years, especially in 2012. Pakistan was indeed the third best performing market in the region in 2012. Equities have undeniably outperformed all other investment avenues, posting an annualized return of 22% over last 12 years, a very impressive USD denominated return of 17% per annum. Though volatility continues to plague the equity markets, stability is expected to set in once economic and political uncertainty ends.

Strategy: Suit Your Investing Style

2013 is bound to be an exciting year for Pakistan. With the democratically elected government completing its five year tenure, we look forward to a smooth transition via free and fair elections. We have divided this year into two time periods:

Pre & Post Elections.

- The **pre election** time is expected to be a rocky path and we anticipate the following two phases:
 1. Under the **first phase**, uncertainty will prevail and the market will remain choppy. But announcement of election date and clarity on an interim set-up will serve to be positive triggers for the investor sentiments and thereby result in a stock market rally.
 2. In the **second phase**, we expect elections to be conducted under strict scrutiny of the election commission and formation of government by June- July.
- The **post election** period is expected to stretch from August- December. This period will be marked with policy formulation and announcements. With political stability setting foot along with clarity on pressing economic issues, we look forward to witness another rally with index marching to 19,820 by December 2013.

Keeping in view our investors' needs, and a dynamic year ahead, we have formulated different allocation strategies based on your profile.

Case # 1: Mr. Ahmed*

- Fresh graduate and start of the career
- Monthly Salary PKR 50,000 with no major expenses, hence monthly savings of PKR 25,000- Saving Rate of 50%
- Near Term Needs- Settle down in next five years and fulfill the requirements of a growing family
- Unique Circumstances- No liability and an aim to save with time to retirement of 35 years.

Case# 2: Ms. Anum*

- A stable career and a challenging job with a monthly salary of PKR 200,000
- High house and education related expenses result in monthly savings of PKR 50,000- Saving Rate of 25%
- Near Term Needs- Children's' higher education and saving for children's future
- Unique Circumstances- Children's' education and worthwhile investments with time to retirement of 20 years

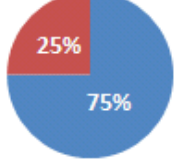
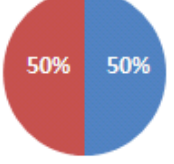
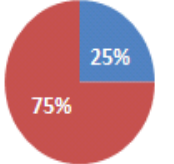

Case # 3: Mr. Bilal*

- With retirement due in next five years and a monthly salary of PKR 400,000
- High expenditures on the card emanating from health to fulfilling the responsibility of daughter's marriage resulting in monthly savings of PKR 100,000
- Near term needs- a secured future with monthly inflows coming to a halt post retirement
- Unique Circumstances- Children's marriage and a proactive approach to handling post retirement expenses

Case # 4: Mr. Umar*

- With the completion of a fulfilling career, its retirement time
- The task is to manage the monthly expenditure post retirement and handle age related medical issues
- To counter the lows of post retirement, allocation needs to be tactful to handle any emergency situation
- Unique Circumstances- countering health issues emanating from aging

**All named used are fictional*

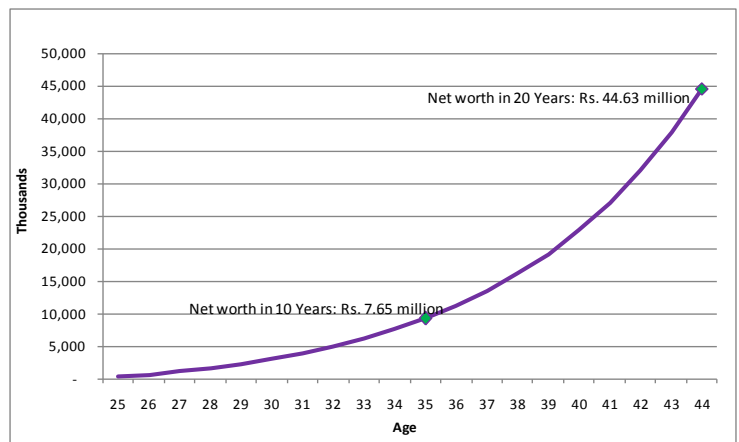
Features	Mr. Ahmed	Ms. Anum	Mr. Bilal	Mr. Umar
Age Group	25 Years	40 Years	55 Years	60 Years
Time Frame	Long	Medium	Short	Very Short
Return Requirement	Very High	High	Moderate	Low
Risk Tolerance	Very High	High	Moderate	Very Low
Liquidity Constraints	Low	Moderate	High	Very High
Tax Considerations	Low	High	High	Low
Investment Style	Aggressive	Balanced	Conservative	Very conservative
Inflation Protection	High	Moderate	Low	Very Low
Allocation	 ■ Equity ■ Fixed Income & Others	 ■ Equity ■ Fixed Income & Others	 ■ Equity ■ Fixed Income & Others	 ■ Fixed Income & Others

⊕ Assumption: Return on equity is 20% while return on fixed income in 8%.

Case# 1: Mr. Ahmed

Aggressive Allocation

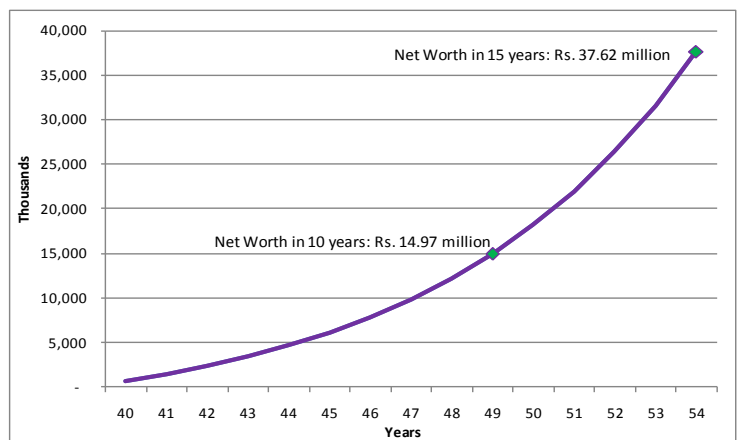
With an **Aggressive** approach, Mr. Ahmed started investing at the age of 25. With no additional liability, he invests 50% of his salary and allocates 75% of his investment to equities and 25% to fixed income. As shown in the graph on the right, if Mr. Ahmed invests PKR 25,000 every month, at the end of 10 years, his cumulative investment will reach PKR 3 Million and his net worth will be PKR 7.65 Million. If he continues investing at the same rate, at the end of 20 years, his cumulative investment will reach PKR 6 Million and the total net worth of his investment will have reached PKR 44.63 Million.



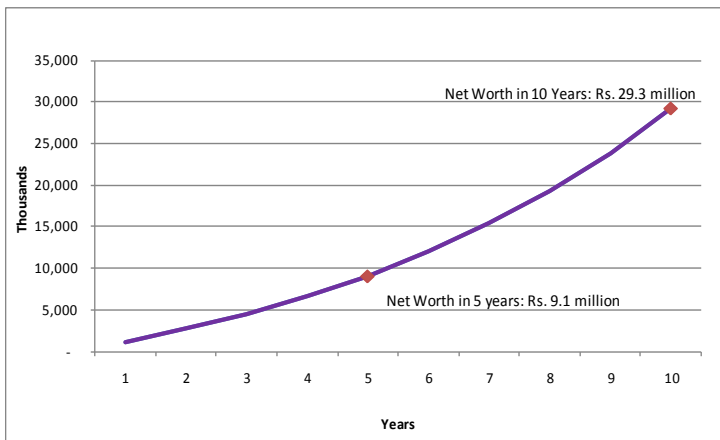
Case# 2: Ms. Anum

Balanced Allocation

With late realizations of saving up for her children's education, Ms. Anum started saving at the age of 40. But soaring expenses rendered her to save just 25% of her monthly salary. To maximize returns but with moderate risk, she adopted the **Balanced** approach and allocated 50% of her investments to both equities and fixed income. As shown in the graph on the right, if Ms. Anum invests PKR 50,000 every month, at the end of 10 years, her cumulative investment will reach PKR 6 Million and her net worth will be PKR 14.97 Million. If he continues investing at the same rate, at the end of 20 years, her cumulative investment will reach PKR 9 Million and the total net worth of her investment will be PKR 37.62 Million.

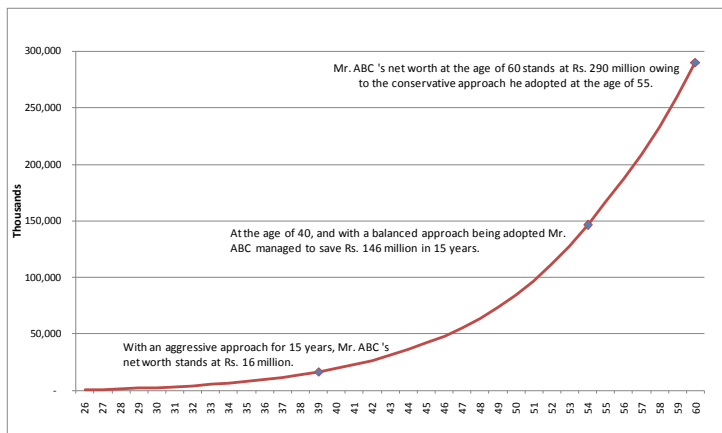


Managing a house and three children’s education was not an easy task for Mr. Bilal. But there’s no respite from burgeoning expenses, and now that the daughters are about to complete their education, it is time to fulfill the responsibility of their marriage. With retirement due in next five years, he adopts a **Conservative** approach and invests 25% of his salary on a monthly basis, with 75% allocation in fixed income and 25% in equities. As shown in the graph on the right, if Mr. Bilal invests PKR 100,000 every month, at the end of 5 years, his cumulative investment will reach PKR 6 Million and his total net worth will be PKR 9.1 Million. If he continues investing at the same rate, at the end of 10 years, his cumulative investment will reach PKR 12 Million and the total net worth of his investment will be PKR 29.3 Million.



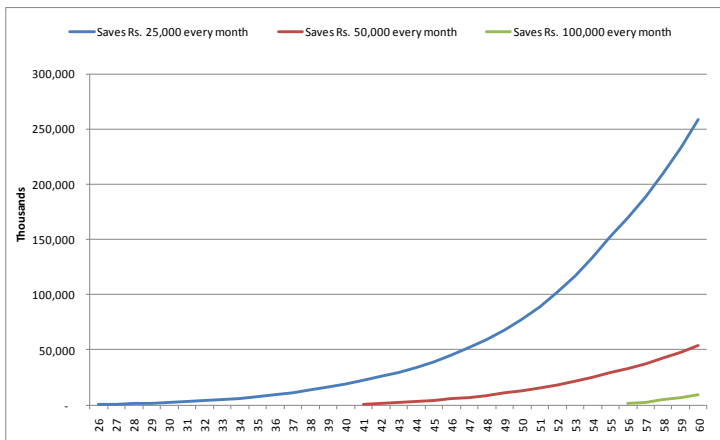
Vary your Investment Strategy with your Age

The graph on the right gives a holistic picture of the three cases mentioned above. A young person takes an *aggressive* approach with major exposure in equities by investing PKR 25,000 monthly for 15 years. Entering age 41, he starts investing PKR 50,000 monthly, but with adding responsibilities, he diversifies his portfolio by adopting a *balanced* approach and taking an equal exposure in equities and fixed income. By the age of 55, due to the changing nature of his expenses, he takes a *conservative* approach by investing PKR 100,000 per month in 25% equities and 75% fixed income.



Save Early - Reap More

Another area that we want to highlight to our valued investors is the concept of saving from an early age. As shown in the graph on the right, a person who takes a systematic approach to saving immediately from the start reaps the benefit. If a person saves a handsome amount of money every month but starts it later in life, he will still lag behind a person who saves little amount every month but started doing it at an early age.



Case # 4: Mr. Umar

A shining career comes to an end and now Mr. Umar is retired. But he wants to take a diligent approach and invest the provident fund and gratuity amount he has received from his employer. Keeping into consideration his circumstances he adopts a **Very Conservative** approach and allocates the entire amount in fixed income. At the time of retirement he received PKR 9 million from his employer, a million of which he kept in his bank account for emergency needs and health bills. The remaining amount is invested in fixed income securities on which he receives a return of 9%, providing him room to withdraw PKR 90,000 on a monthly basis for the next 20 years.

Monthly withdrawal under Very Conservative Approach	
Amount Received on Retirement	PKR 9,000,000
Funds will be invested at	9%
Time Period	20 Years
Monthly Amount that can be Withdrawn	PKR 90,000

Luckily he also started contributing to a voluntary pension scheme (VPS) when he was 40 years old as shown in the table below:

Age	Scheme	Allocation to Fixed Income	Allocation to Equities	Monthly Investment
40-50	Medium Volatility	50%	50%	PKR 50,000
50-60	Low Volatility	75%	25%	PKR 100,000

At the end of twenty years of contribution to the VPS i.e. at retirement he has a balance of PKR 51 million in his account.

Total Contribution	PKR 19,800,000
Net Worth at the age of 60	PKR 51,075,484

At the age of 60, he will be able to reap the fruit of investing in a VPS as he will be able to withdraw 50% of it immediately and PKR 106,407 on a monthly basis for the next 20 years.

Immediate Withdrawal	PKR 25,537,742
Monthly Withdrawal	PKR 106,407

So Mr. Umar's financial position at the age of 60 will be:

Financial Outlook	
Cash Available immediately from VPS	PKR 25,537,742
For every month from the age of 60 years to 80 years	
Amount Available from the invested Provident & Gratuity Fund	PKR 90,000
Amount Available from the Income Payment Plan of VPS	PKR 106,407
Total Monthly Income	PKR 196,407

To further aid our valued investors to make well informed decisions, we have also discussed the upcoming triggers emanating from politics, expectations pertinent to monetary indicators, discount rate scenario and resultantly the impact on equity markets.

The risk appetite for a person tends to diminish as he moves through the different stages of his life. A person shifts his asset allocation from high-risk to low-risk investment avenues as he moves from youth to retirement.

Politics: Transformation in the making?

- **Longest March – Is it bearing result?**
- **Free and fair elections with interim setup will pave the way for smooth transition of power.**

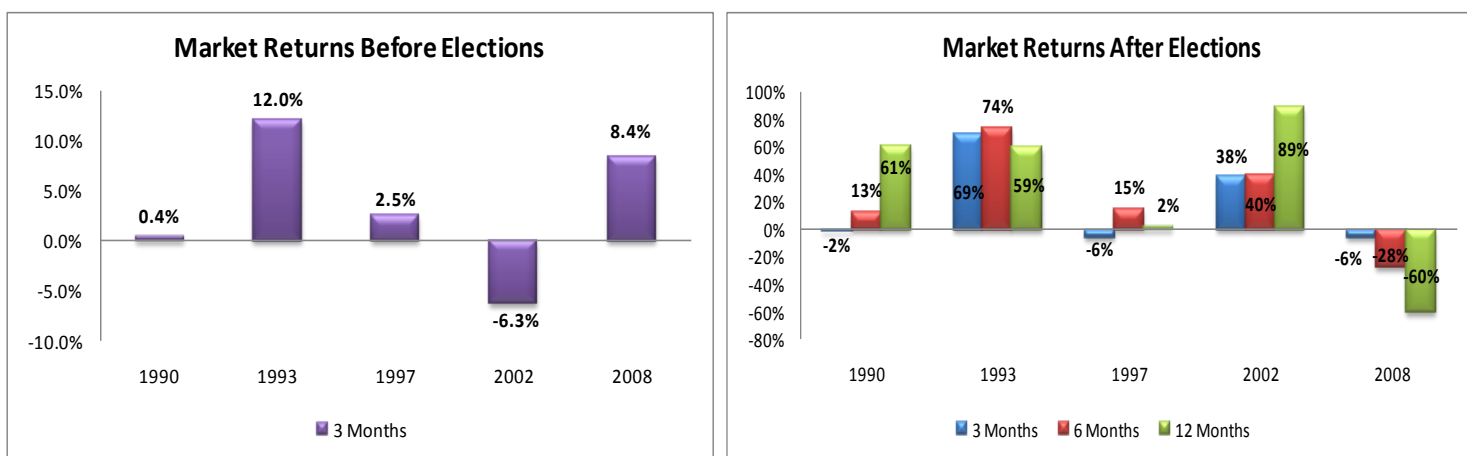
As the five year tenure of the current democratic government comes to an end in March 2013, the political landscape of Pakistan seems embroiled with uncertainty and turmoil. With the general elections due in the first half of 2013, multiple unsettling political events are taking their toll on Pakistan’s economy and capital markets. The recent political upheaval was caused by Dr. Tahirul Qadri’s long march and sit-in at Islamabad, consequences of which are yet to be witnessed.

An active collaboration between the major political parties, vibrant media, diligent Chief Election Commissioner and pro-active judiciary all converge towards a more lucid path leading to the upcoming general elections. Moreover, with the masses pressing for the setup of an impartial interim government and free and fair general elections, the on-going noisy politics may eventually lead to fair weather once the electoral process reaches its culmination. Resultantly, we expect more stability and clarity on economic policies which will eventually trickle down to strong stock market returns.

Democracy at a stretch ... myth or reality?

Unfolding the pages of history, the current democratic regime will be the first to complete a five year term. But the need of the hour is a neutral interim setup that will help in holding free and fair elections. Back to back democratic regimes can provide the necessary impetus which shall provide an era of greater stability with sustained policies leading to a more organized and healthier economy.

Past reveals that KSE has performed consistently well on an average both pre and post elections. Average returns of three months prior to elections have stood at 3.4%, while 19%, 23% and 30% three, six and twelve months post elections. Given the statistics illustrated below, we can reasonably expect the market to take a progressive route during the upcoming elections as well.



Source: Arif Habib Limited - Research

Post election market behavior will also be dictated by the new government policy framework to handle the pressing structural issues such as circular debt and external deficit. Effective handling of these issues can un-tap the strong growth and subsequently reflect in strong capital market returns.

Economy: Pressures Easing or Mounting?

Structural Inefficiencies Hamper GDP Growth

The government has been overly optimistic with regards to the budgetary projection of GDP growth and expects that it will take a jump to 4.3%. With general elections due this year, we do not expect accomplishment of this target and anticipate GDP growth to hover in a range of 3.5% - 3.7%. We get more affirmative on our stance as foreign direct investment is expected to remain on the lower end of spectrum. Along with an uncertain political scenario and energy shortages that continue to plague the performance of numerous industries, private sector credit off-take is also on a declining trend.

CSF & Remittances to Rescue Current Account

For the first half of fiscal year 2013, much needed support to the Current Account was brought in by the realization of two tranches of CSF that amounted to USD 1.18 billion and USD 0.688 billion. This strengthened the current account which recorded a surplus of USD 250 million in first six months of current fiscal year against a deficit of USD 2,428 million in the same period last year. Remittances continued to do wonders for the economy as they clocked in at USD 7.1 billion as against USD 6.3 billion in the same period last year registering a surge of 13%. With an uncertain political scenario looming and realization of budgeted inflows appearing very unlikely, we expect the current account deficit to be at 1% of GDP for the fiscal year 2013, amounting to USD 2 billion.

IMF Repayments and Exchange Rate Performance

The forex reserve position of Pakistan has always remained critical and back in 2008 when the liquid forex reserves held by SBP dipped to USD 3.4 billion; Pakistan knocked the IMF doors and entered into a stand-by agreement. Under the program, the donor provided loan worth USD 11.3 billion over a period of three years. Due to the non compliance of policies and reforms agreed with IMF, the program ended pre maturely. Hefty repayments of the loan have exerted immense pressure on SBP's liquid reserves which have slumped to USD 9.0 billion on 31st December 2012. As shown in table below, from January – June 2013, the country needs to repay USD 1,707 million besides other donor payment that will put forth additional burden on the already tweaking reserves.

IMF Repayments					
IMF Repayments in USD Mn for the next 3- Years	2HFY13	1HFY14	2HFY14	1HFY15	2HFY15
	1,707	2,012	1,245	876	408

Midst of all these concerns is the depreciating Pak Rupee against US dollar which is causing nervousness across the country. Calendar year 2012 was not a booming one for Pak Rupee as it depreciated by 7.96% with major fall witnessed in the first half of the year. While diagnosing the average depreciation for three, five and ten years, we see in the table below, that Pakistani rupee plunged down by 5.37%, 15.62% and 10.33% respectively. And hinged on the past performance, we may expect the rupee to depreciate further by 7% to 8% in CY 2013.

	1 Year	3 Years	5 Years	10 Years
Average Pak Rupee Depreciation	-7.37%	-4.62%	-8.65%	-4.96%

We expect Pakistan's re-entry into the IMF program later this year once a new government is elected. Though the IMF reforms are harsh, but in the long run the country will bear fruits if the policies are adopted. The IMF program will result in increased confidence of the other lenders as well. The government will pay due attention to the structural inefficiencies and the abolishment of subsidies will lead to a decline in government borrowing. Consequently, private sector credit off take will grow which will eventually be reflected in a healthy GDP growth.

Positivity Stemming from Low Inflation & Interest Rates

In an absolute abysmal performance of the economy, declining inflation re-kindled hopes as it took the downward route and averaged at 8.33% for first half of fiscal year 2013, giving room to SBP to slash the discount rate by 250 bps in three steps. The final rate slash took the total cut to 450 bps in a period of mere 17 months. Amid criticism of the cuts being unsustainable, the SBP has time and again emphasized that the recent monetary easing is done with the view of helping private sector credit off take to take an upward route.

Burgeoning Imports and Minimal Exports to the Rescue

Analyzing the trade scenario of the country, crude oil constitutes bulk of the imports while exports are majorly skewed towards textile. Unfortunately, the prevalent energy crisis in the country has badly affected the textile industry which is reflected in lackluster exports. From July - December 2013, textile sector exports stood at USD 6.5 billion against USD 6.0 billion in the same period last year; registering an increase of only 9%.

With Pakistan's import bill skewed towards crude oil, we expect the import outlook to remain uncertain. Oil prices pose an upside risk stemming from the instability in the Middle East and the global concerns on Iran. Pakistan's import outlook will remain uncertain, owing to the volatility of commodity prices stemming from the recent induction of Quantitative Easing- III by USA under which additional USD 40 billion/month will be printed indefinitely. Recent move by Japan of an increased focus on growth along with 2% inflation target have enforced our confidence of oil prices sustaining the current level. At the same time, we may not witness repetition of 2008 rally in crude markets as major consumers have started shifting towards alternative energy sources such as shale gas.

Fixed Income: Reversal in sight?

In a zero sum game, a winning side gains at the expense of a losing side; and a perfect example of this was witnessed in 2012, with equity market soaring high and a dampened fixed income market on the back of falling interest rates.

During the first half of fiscal year 2013, SBP continued with its monetary easing stance and slashed the key policy rate by 250 bps in three steps taking it down to a single digit rate of 9.50%. This was on the back of falling CPI which witnessed a 42 month low in November 2012 to clock in at 6.93%, but then inched upwards to 7.93% in the month of December 2012 taking the six month average CPI to 8.33%. With the base year revision and the CPI basket re-composition effect fading off, coupled with the rising food and gas prices, we expect inflation to inch up slightly over the next half of fiscal year 2013 taking the average inflation for fiscal year 2013 to close around 9%. Congruent to our inflation expectation, we expect SBP to halt the process of monetary easing. And with a plausible entry into the IMF program, we anticipate SBP raising the discount rate to maintain the IMF's comfort zone of 150-200 bps real rate of return.

For the early months of 2013, we expected fixed income returns to stabilize around the current levels; but later in 2013, these returns shall ascend triggered by an anticipated rise in discount rate.

The effect of SBP's continuous monetary easing so far is evidently visible in the following table:

	Before Monetary Easing (July 11)	Current Rates (Dec 12)	Change
SBP Discount Rate	14.00%	9.50%	(4.50)
GoP Securities			
6- Months T-Bills	13.76%	9.18%	(4.58)
10- Year Pakistan Investment Bonds	14.07%	11.50%	(2.57)
Ijarah Sukuks (3 year)	14.00%	9.19%	(4.81)
Saving Schemes			
Special Saving Certificates - 3 years	14.00%	10.30%	(3.70)
Defense Saving Certificates - 3 years	13.55%	10.84%	(2.71)
Corporate Instruments			
TFCs (AA- rated and above; 2 to 8 Years)	15.50%	12.50%	(3.00)
Corporate Sukuks	15.70%	10.60%	(5.10%)

Equity: Be-hidden potential

The global economic scenario has radically changed in the last few years with markets becoming more integrated and correlated. As threats of global economic conditions are easing in light of favorable housing, employment and corporate earnings data in United States; equity markets have been on a rally as individual investors pour money into stock markets worldwide. Though this recovery has been slow since the aftermath of 2008 financial crisis when stocks lost their appeal as an attractive investment avenue, the recent call to equities raises market optimism of the fading global economic concerns.

Though stock market prices headed in a positive direction globally; 2012 was not a smooth sailing year for Pakistan. Political uncertainties, economic woes and deteriorating law and order situation plagued the country but the equity market remained resilient and successfully managed to overcome the shortcomings by providing a return of 49% in CY12.

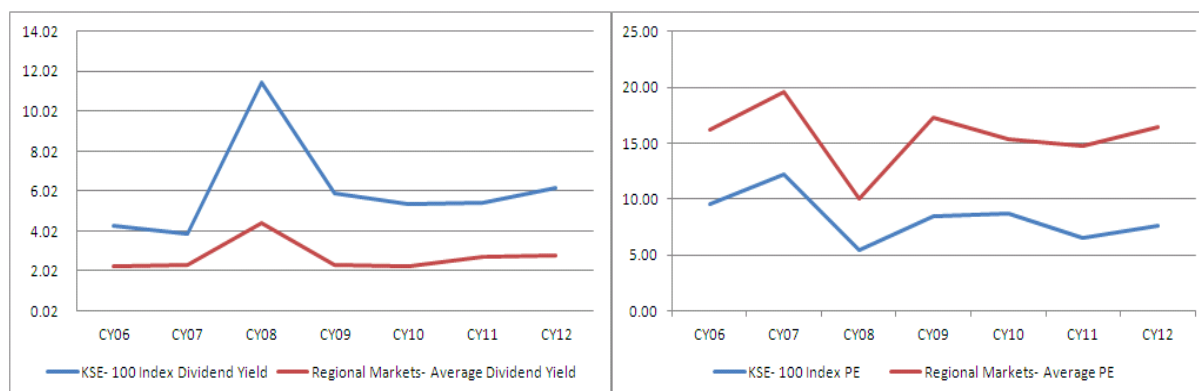
KSE-100: The star performer

2012 though was not a phenomenal year for the country in terms of economic performance and law and order situation, but it was absolutely a worthwhile year for the stock market. The exceptional performance of the KSE-100 index enabled it to bag the title of **Third Best Performing Market** trailing behind Venezuela and Turkey by registering a return of 49%.

The phenomenal performance of the index was attributable to:

1. Capital Gains Tax reforms which comprised of at-source deduction of CGT and exemption from inquiry into source of funds till June 2014.
2. Monetary easing under which SBP slashed the discount rate by 450 bps from August 2012 till December 2012.
3. Robust corporate sector profitability.
4. Healthy foreign participation, with foreigners net buying amounting to USD 123 million against net outflow of USD 113 million in 2011.

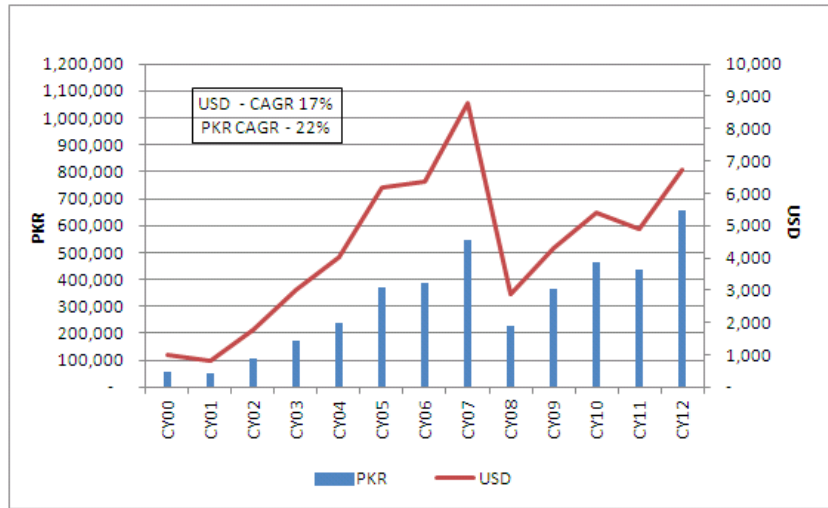
Despite our expectation of a volatile equity market in the first quarter of 2013, we expect stability to set forth once certainty emerges on the political end. Despite the uncertain political and economic scenario, KSE-100 index will still be attractive based on cheap multiples and strong dividend yield. As shown below, we see that historically KSE has traded at a discount to regional market PE, which has further widened since 2009. Moreover, the dividend yield has been well above the regional markets, serving as a cherry on the top. Going forward, we expect this gap to reduce as political landscape change is expected to reinstate investor confidence on Pakistan's capital markets.



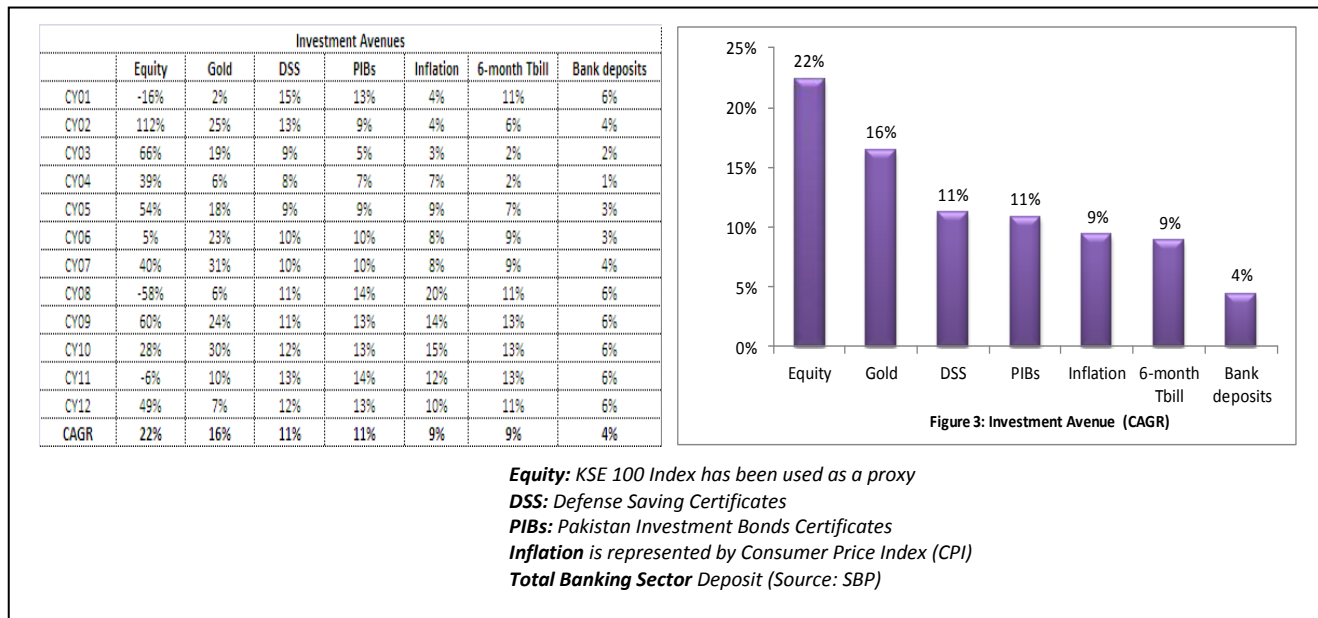
Source: Arif Habib Limited - Research

Equities -The Better Alternative

When available alternatives are compared with respect to return over a twelve year period, equities have remained the best choice for investors who have a long term perspective and can withstand short to medium term volatility in stock market. Assuming an investor invests PKR 100,000 and USD 1,000 in KSE-100 in year 2000; his net worth in PKR will grow to 1,120,000 million by 2012 while in USD, his net worth of the initial principal will grow to USD 6,724. As shown in the graph below, we see that the 12 year USD CAGR for his investment stands at 17% while his local currency CAGR is at 22%.



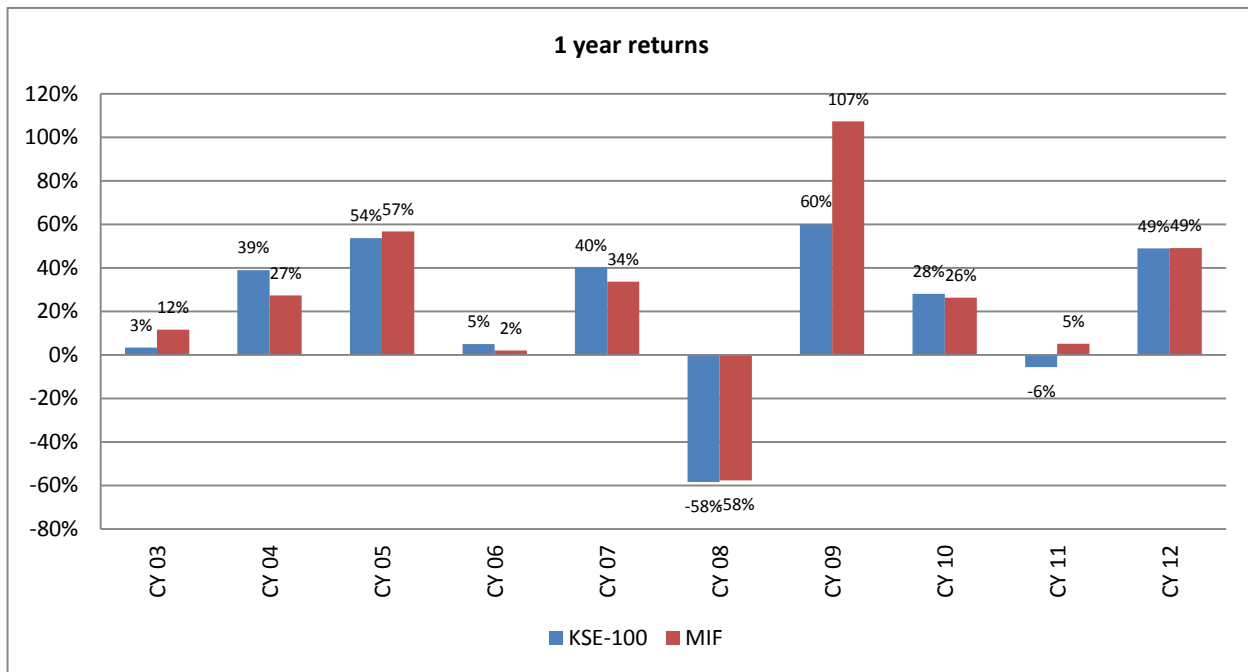
Evaluating various available investment avenues over the last twelve years, we see that the Pakistani stock market has provided a compounded annual return of 22%, as shown in the graph below. The second best performing asset is gold that has glittered over the same period by registering a compounded annual return of 16%.



Low at stake for long-term horizon

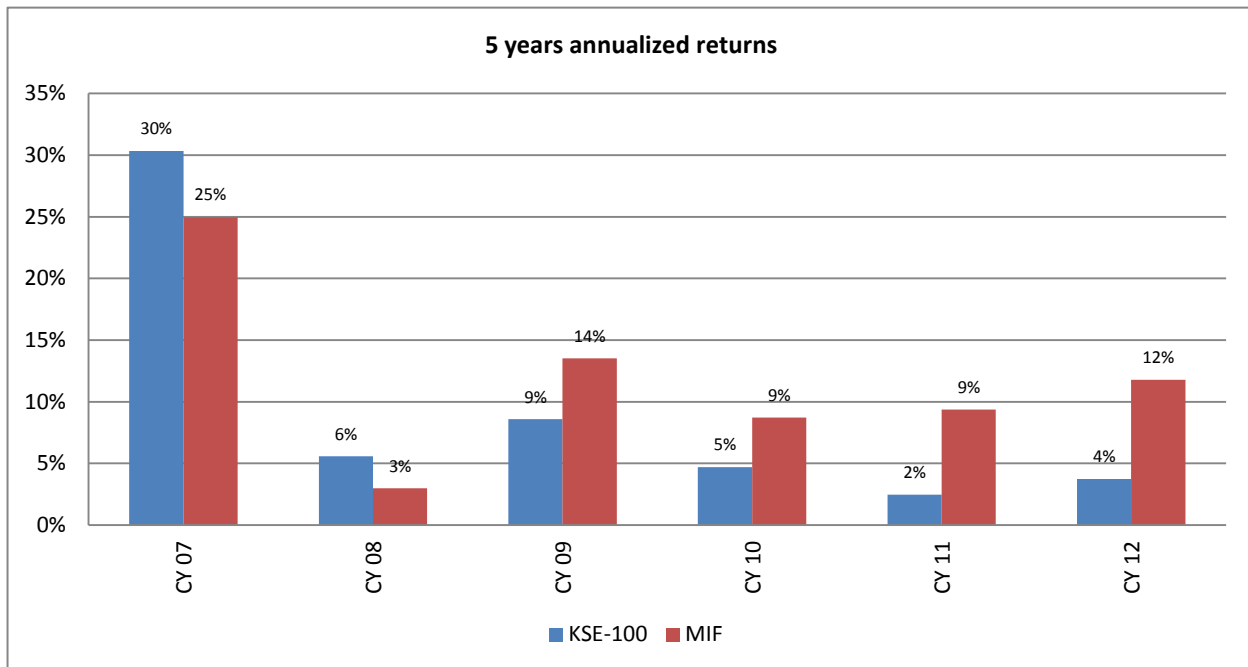
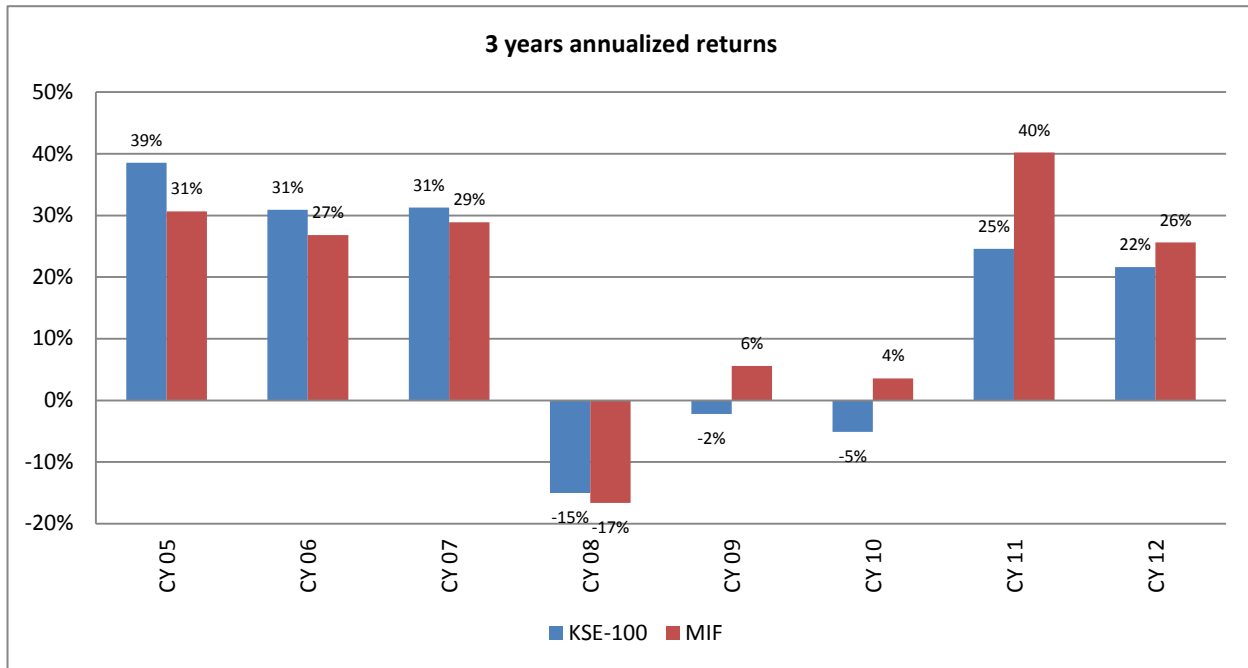
Equity investments are subject to market volatilities resulting in negative price movements, straining the investment’s return potential. Such adverse price effects can cause temporary losses for investors that may not be reversible in the short-term. However, if an investor takes a long-term view on investing in equity, he can overcome the market volatilities; beat the returns on debt instruments and also the underlying interest rates. Therefore, as a rule of thumb, equity investments are only advisable for investors with a long-term investing horizon.

We will substantiate the above through the returns of Al Meezan’s flagship fund, Meezan Islamic Fund (MIF) versus the returns of KSE-100. The returns of MIF and KSE have been shown for the same period from August 2003, (when MIF was launched) to December 2012. The graph below shows the returns given an investor has invested in KSE-100 and MIF for 1 year each year since August 2003.



Note: CY 03 returns are for the period August 8 to December 31 2003 (MIF was launched in Aug 2003)

In contrast, the graphs below show returns for an investor who has invested for 3 and 5 years’ time horizon. For example, the 3 year annualized return for an investor who started investing in MIF in August 2003 and holds his investment till December 2005 is 31%.



There are two important conclusions from the graphs above from which investors can benefit:

1) As the investing time horizon increases, the probability of frequency & amount of loss incurred reduces

As the investing time horizon is increased, the probability of holding period loss is reduced. When investing for 1 year, the investor earns a negative return twice on KSE-100 and once on MIF. However, when investing for 5 years, the investor has incurred no loss and earns the most stable returns. It is evident that market volatility affects the returns of an investor with 1 year investment horizon and a reduced volatility is experienced by a 5-year investor.

This reduced volatility as time span of investment expands is further justified from the below given table which reflects upon the diminishing occurrence of losses and its probability as the time horizon of equity investment is increased. Moreover, the extent of actual loss also reduces with an increasing investment time frame.

Time Horizon	Frequency of loss in 10 years		Probability		Maximum loss (actual)	
	MIF	KSE	MIF	KSE	MIF	KSE
1 year	1	2	10%	20%	58%	58%
3 years	1	3	13%	38%	17%	15%
5 years	0	0	0%	0%	0%	0%

2) MIF has predominantly outperformed KSE-100

It can be noted that MIF has consistently provided superior returns when compared with KSE-100. Moreover, 5 years' annualized returns of MIF have outperformed KSE-100 from Calendar Year 2009 to Calendar Year 2012, by at least 400 bps. While KSE-100 is exposed to the market volatilities of all the companies in the index, MIF invests in only Sharia'h-compliant companies that resist the market swings better. This enabled MIF to defend itself against some of the hard-hit sectors during the global crisis of 2008. Al Meezan strives to continue this trend of competitive and outperforming returns to ensure its clients the best value for their investment.

Final Thoughts: New Setup; Rekindled Hopes

Key Triggers- 2013

- ✓ Free and fair elections
- ✓ Political stability
- ✓ Sustainable corporate profitability
- ✓ Attractive P/E multiple and growing foreign interest
- ✓ Improvement in bilateral relations with countries across the globe
- ✓ Improving economic indicators

2013 is a testing year for the country with challenges stemming from the elections, worsening economic indicators, geo political issues, and social sector reforms. The country is inundated with potential to stand out and shine and show to the world its innumerable capabilities. Favorable demographics can do wonders for the country with 60% of the population below the age of 30. Increasing urbanization trickles down to enhanced consumer demand which will serve as an impetus to growth in the near future. The constraints lie on the supply side coming majorly from infrastructural inefficiencies and improper planning. But these issues can be tactfully handled and resolved with a diligent team coupled with better governance and thoughtful planning.

On the economic end, the major challenge comes from the depleting forex reserves, which exert pressure on the currency. Coalition Support Fund from USA resulted in a surplus current account for the first half of fiscal year 2013. But with the growing uncertainty of realization of budgeted inflows, we hinge our expectations to the remittances to provide the much needed support to current account in the upcoming months. As far as inflation is concerned, we anticipate that it will inch up in the second half of fiscal year 2013, but will remain in a comfortable zone.

News has it that Pakistan has approached IMF for another package; we expect the monetary easing to be short-lived. However, in the midst of all the pressure forces dragging the economy, the equity market is expected to continue to reach new heights along with rising consumer demand serving as an impetus to growth in the future.

The recommended investment approach for our investors is to go for one of allocations strategies that suit their profile as outlined in the strategy section of this publication.

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.