



**Al Meezan**  
Investment Management Ltd.

**AM1**  
Rating by VIS & PACRA  
August 2022

# ROAD TO STABILITY

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## INSIDE HIGHLIGHTS

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Top themes for 2023 - Renewable Energy, Export diversification & Financial inclusion  
Commodity prices - Down, amid fears of slowdown | Economy - Road to Stability  
Politics - Uncertainty to gradually dissipate once general elections are in sight  
Equity - Trough valuation indicates considerable upside potential  
Fixed income - Yield curve has shifted from upward sloping to inverted | Gold - Glimmer of hope...  
Meezan Pakistan ETF - Pakistan's first & only Shariah Compliant ETF  
Meezan Fixed Term Fund - Another first to market | Marketing Highlights

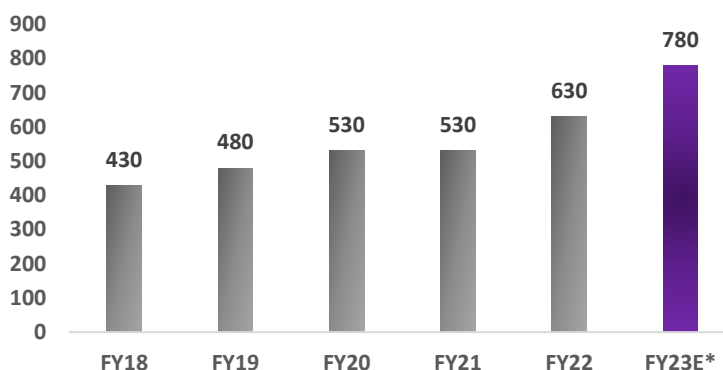
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Traditionally, mutual fund investors in Pakistan had limited to no options for investing in products with short to medium term investment horizons while also enjoying predetermined fixed returns. With MFTF, Al Meezan became the first Asset Management Company (AMC) in Pakistan to cater to this growing demand from its valued clients.	
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# Top Themes for FY23: Renewable Energy, Export diversification & Financial inclusion

## Growing Importance of Renewable Power Generation

### Installed Solar Capacity (MW)\*



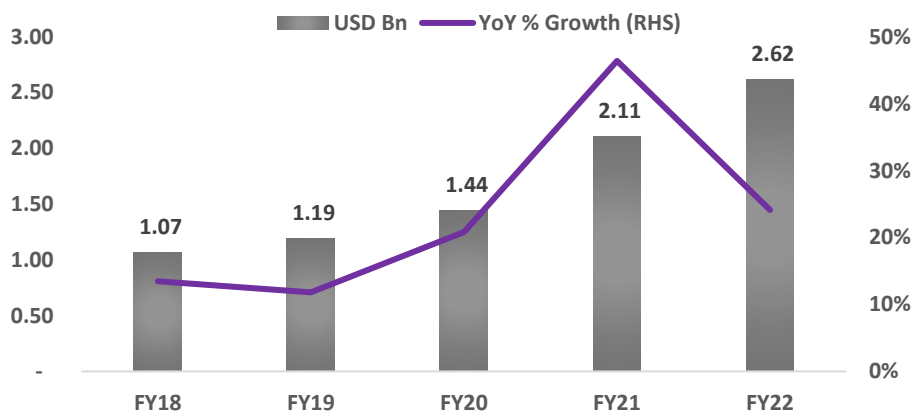
*\*Excluding potential impact of new solarization projects under consideration*

Amid rising energy import bill, the government is inclined towards increasing the share of renewable energy in the country's power generation mix. Hence, the country is targeting to increase the contribution from renewable sources other than hydel to 30% by 2030 from 5% in FY22. In this regard, the government is planning to launch solarization projects of around 14,000 MW within the next few months. Furthermore, the government is also expected to encourage manufacturing and incentivize installation of solar panels and solarization of government offices etc.

## Export Diversification & Growth – High hopes from IT Sector

While textile sector has historically dominated country's exports, the information and communication sector has gained importance as consecutive governments have attempted to diversify exports. While IT exports have risen at a healthy CAGR of around 23% over the past 5 years, the Ministry of IT and Telecommunication has set an aggressive growth target to reach USD 5bn by end of FY23, almost double the figure of USD 2.6 bn achieved in FY22.

### Pakistan IT Sector Exports





## Making strides in Financial & Investor Participation:

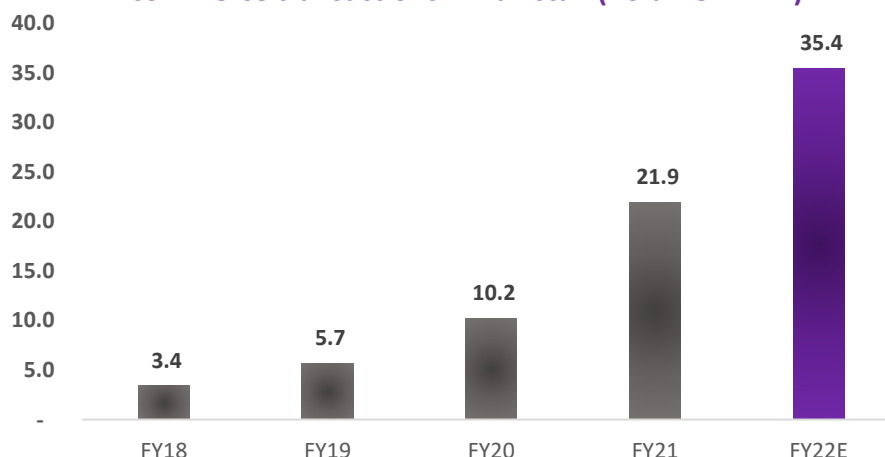
In light of low penetration and general aversion to complicated procedures, the government and its associated bodies have launched number of platforms to increase financial inclusion in the country. RAAST launched by SBP allows instant digital payments and free fund transfers. Similarly, recently launched Asaan Mobile Account allows any Pakistani citizen holding a valid CNIC to open a bank account digitally simply via a SIM of any registered mobile operator and make transactions through any smart phone without the requirement of internet connectivity. Furthermore, country's first online market place for the mutual fund investors has also recently been inaugurated. In the backdrop of these initiatives, financial inclusion in Pakistan can be expected to improve in the coming years.



## The surge of E-Commerce

E-Commerce is on a rapid rise in Pakistan with transactional volume reaching 35.4 Mn by the end of Mar 2022, a growth of 62% since the start of the FY22. This has been complemented with an almost 8x increase over the previous five years and 48% growth in FY22 alone in the number of e-Commerce merchants registered with banks. These metrics are indicative of growing preference amongst consumers to avail E-Commerce facilities and could potentially encourage more businesses to commence online operations.

**E-commerce transactions in Pakistan (Volume in Mn)**



## Commodity Prices: Down amid fears of slowdown

Commodity prices have recently seen a broad-based downward correction amid fear of global economic slowdown. Hence, amid continuation of these fears, global commodity prices can be expected to remain under pressure.

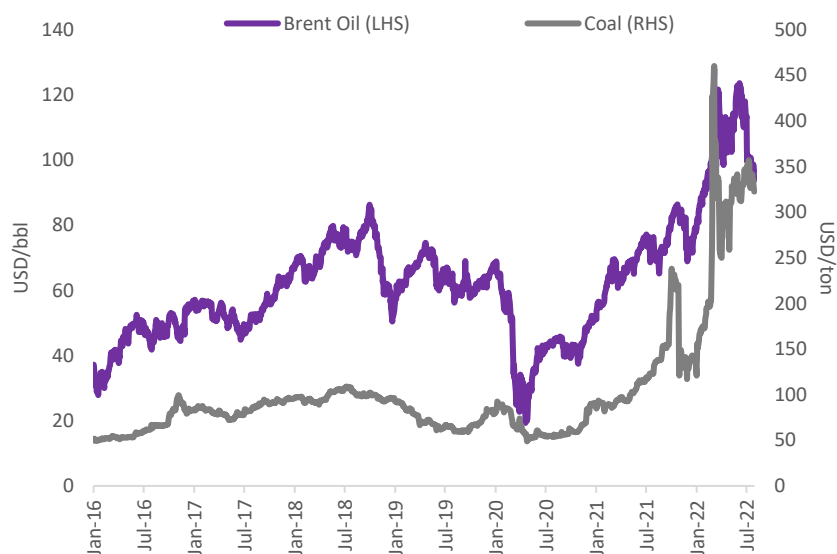
### Oil-Used in: Energy, Chemical and Transport industry

Oil prices have started to cool down from recent high of USD 128/bbl with Brent touching low of USD 92/bbl amid worries of global economic slowdown. Going forward, global economic outlook, resolution of Russian-Ukrainian conflict, developments on Iran nuclear talks and increase in supply from OPEC plus would determine the direction of international oil price.

### Coal-Used in: Energy and Cement industry

Coal touched its historic high in March at USD 450/ton, since then prices have retraced by 30% and are currently hovering around USD 320/ton with future contracts going well below USD 300/ton. However, demand/supply gap in the upcoming winter and any resolution of Russian-Ukrainian conflict can be expected to determine coal prices in the near future.

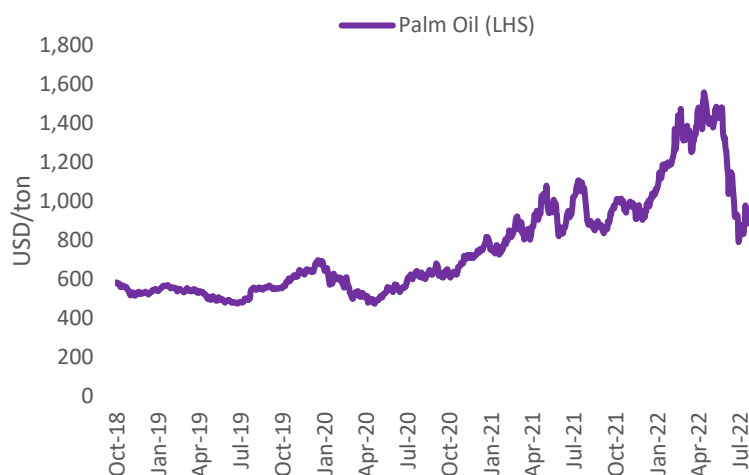
### Oil & Coal reversing previous gains



### Palm oil-Used in: Food industry

Palm oil prices peaked in April 2022 and have since seen a sharp reversal with prices declining by 41% to USD 880/ton on back of higher palm oil inventory, increased export quota and reduced taxes by Indonesia and lower demand amid high prices. Going forward, possibility of higher palm oil exports from Indonesia amid inventory build-up can be expected to keep prices in check.

### Palm oil: normalization from peak



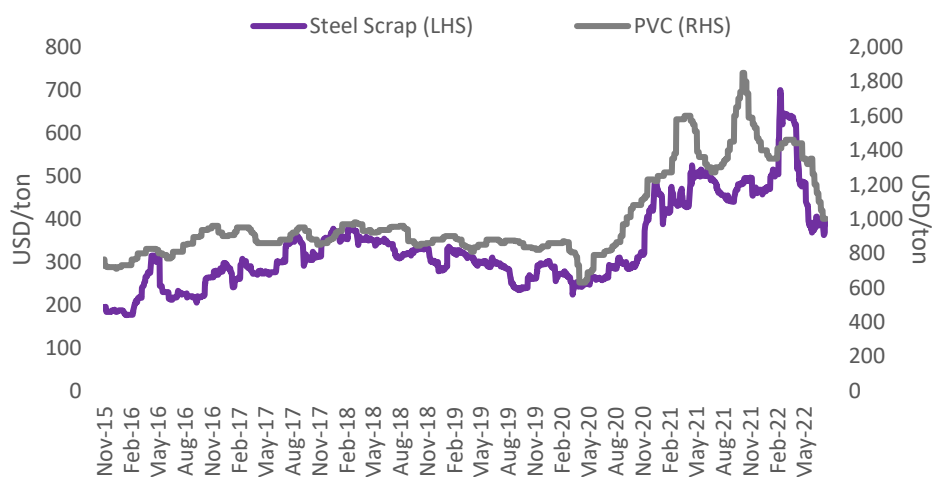
### Steel scrap-Used in: Construction and Auto industry

Global steel markets have seen huge swings this year. Fraught with supply disruptions in the wake of Russia-Ukraine war, prices surged to historic highs of USD 690/ton. However, initial fears of wars did not materialize to the extent anticipated. Hence, since early March, prices have declined by 43% to USD 395/Ton. Going forward, concerns over global economic slowdown and demand for steel scrap shall determine steel scrap prices.

### PVC-Used in: Construction industry

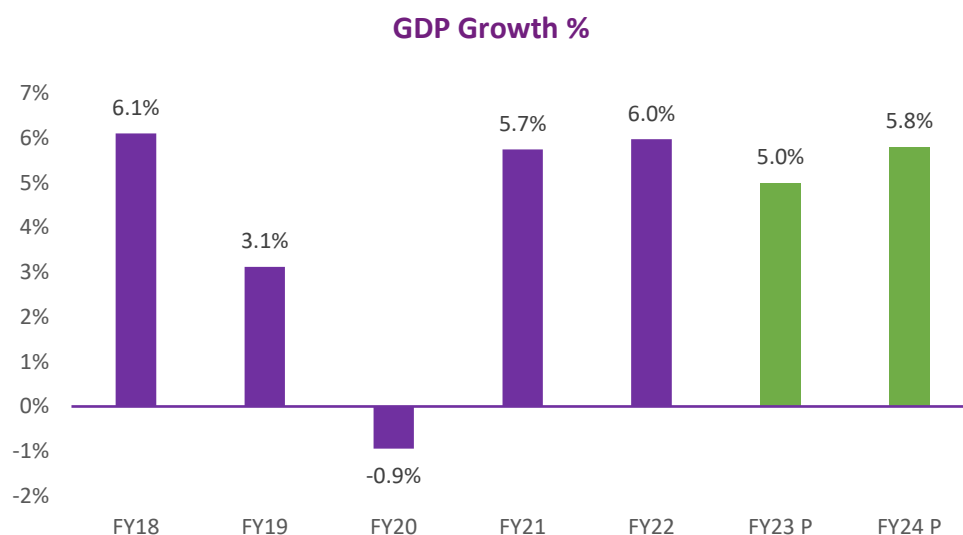
After touching its historic peak of USD 1,850/ton in Nov-21 on back of rebound in global demand and plants shutdown, PVC prices have declined amid weaker demand and surplus material supplies across Asia. Looking ahead, PVC prices are set to remain in check amid muted demand (amid global recessionary pressures) and new global PVC capacities that are scheduled to come online over the next five years.

### Construction material: Economic slowdown hampering price



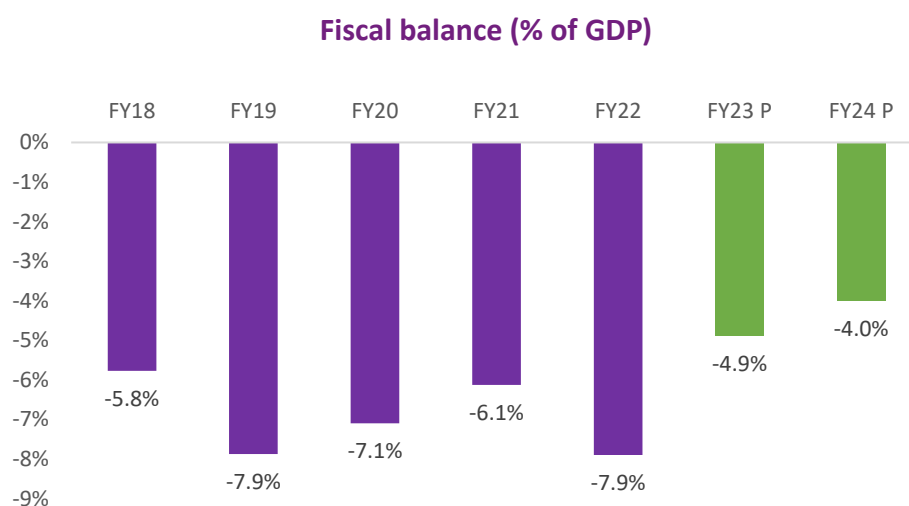
## Economy: Road to Stability

Amid monetary and fiscal stimulus, Pakistan's economy continued to witness an upward momentum during FY22 as the economy grew by 6.0%. Agriculture sector grew by 4.4% and surpassed the target of 3.5% mainly driven by higher yields and attractive prices. Industrial sector posted a growth of 7.2% as large-scale manufacturing posted a healthy growth of 10.5%. Furthermore, services sector posted a growth of 6.2%. Going forward, the government expects GDP to grow by 5.0%/5.8% in FY23/24 respectively, despite tight fiscal and monetary policies.



### Fiscal deficit: Aiming in the right direction

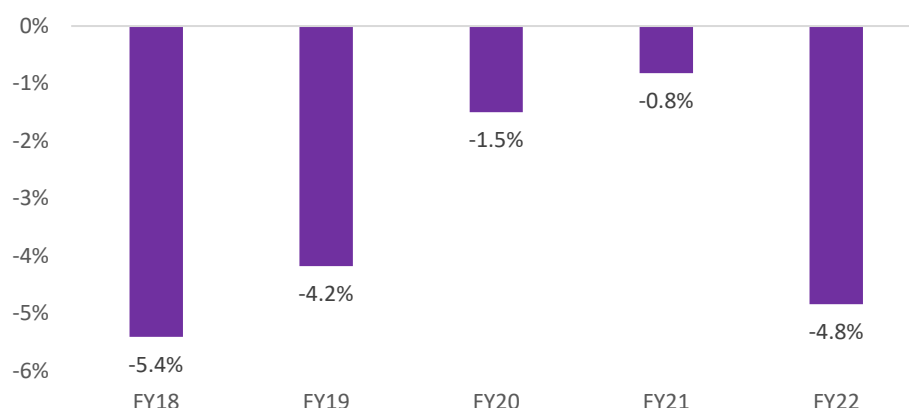
While the above-mentioned fiscal stimulus aided the economy to grow by 6.0%, the same contributed towards a fiscal deficit of 7.9% of GDP. This increase in fiscal deficit can largely be attributed to the combined impact of lower non-tax revenue (lower collection of petroleum development levy and SBP profits) and higher subsidy as part of a PM package to limit energy cost. However, federal tax revenue remained robust with a growth of 29% YoY. In the ongoing fiscal year government expects primary surplus of 0.2% by introducing measures that will increase tax collection, eliminate subsidies & exemptions, and curtail current expenditure.



## Current Account Deficit (CAD): Road to Recovery

CAD soared during FY22 on the back of elevated international commodity prices, imports of COVID-19 vaccine and higher machinery imports aimed at capacity enhancement of the economy. In addition to continued use of a market determined exchange rate, government is taking additional measures to curb CAD (these include imposition of 100% cash margin on a several items, limiting the import of non-essential items for a limited time period, removing subsidies on petroleum products with the aim to limit their demand, improving export growth by diversifying across new markets and new products). GoP expects that these above-mentioned measures and the demand contraction expected in FY23 should reduce CAD sharply.

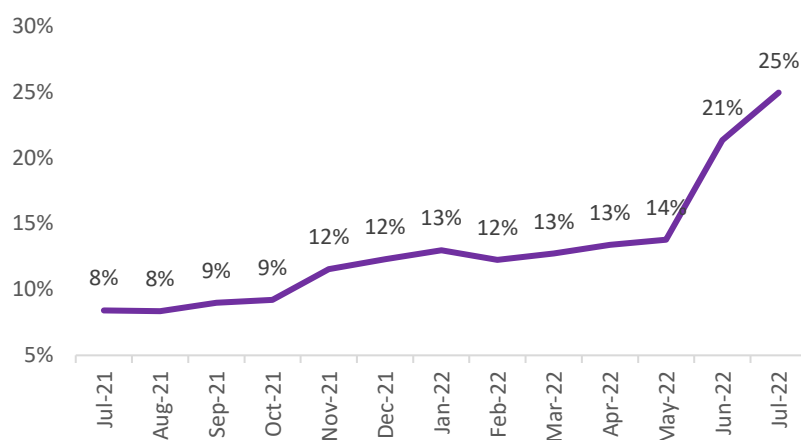
**Current account deficit (% of GDP)**



## Monetary tightening to persist

Increase in energy cost and rising food prices as a result of commodity boom cycle resulted in 325 bps rise in CPI during FY22 with monthly inflation reading crossing 20% in Jun-22. As a result of rising inflationary pressure central bank increased its policy rate by 800 bps since its low. Going forward, SBP expects inflation for FY23 to remain in the range of 18%-20% before declining sharply during FY24, however, this itself is subject to uncertainty arising from global commodity prices, fiscal policy stance and exchange rates.

**CPI Inflation (Year on Year)**

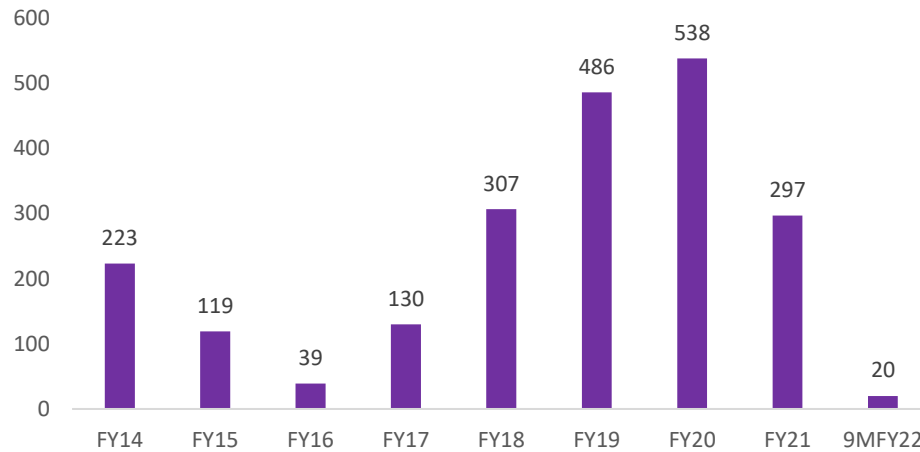




## Circular debt management plan

After reaching its peak in FY21, circular debt accumulation has seen a significant decline on the back of government's measures (Sukuk issues, settlement with IPPs in exchange for lower future tariffs and hikes in base power tariff).

**Flow of Circular debt (PKR bn)**



## Politics - Uncertainty to gradually dissipate once general elections are in sight

Political scenario in the country remained extremely volatile in the last few months. Following the no-confidence motion against the sitting Prime Minister in March-April 2022, the Pakistan Democratic Movement formed their government in the center and nominated Shahbaz Sharif as the Prime Minister. On the other hand, a vote of no confidence was also brought forward against the Chief Minister of Punjab, Usman Buzdar, who submitted his resignation and Hamza Shahbaz replaced him. Meanwhile PTI carried out extensive protests and rallies across Pakistan which set the new government on the backfoot to carry out any meaningful economic reforms in a speedy manner which was the need of the hour, foremost amongst which was hike in petrol prices, to neutralize the subsidies that were emptying the government coffers by the day. Sensing rising public pressure and call for early elections, the government rushed to the National Assembly to have the NAB partly defanged while passed the Elections (Amendment) Bill 2022, which seeks to remove the use of electronic voting machines (EVMs) in general elections as well as disallows overseas Pakistanis from voting electronically.

Meanwhile negotiations with the IMF remained inconclusive initially with the lending authority persistent on its demand to reduce domestic subsidies before any progress on the loan program. Similar red flags were shown by other friendly countries which asked the government to first re-enter the IMF program before any financing arrangement from their side. With cumulative debt repayments of around USD 20 billion during the FY23 apart from a likely CAD in the vicinity of USD 9-12 billion, the government was getting pushed in a tight corner. As a result, the subsidy reduction process started in the month of May with significant hikes in domestic petrol/diesel and electricity prices. This sent inflation through the roof, with the months of June and July registering CPI levels of 21.3% and 24.9% on YoY basis, the latter being the highest reading since October 2008. The inflation print gave another opportunity to the PTI to start a public protest wave and question the authorities the need for a change in set-up which had been initiated under the slogan of reducing inflation.

Meanwhile in Punjab, the Supreme Court ruled that members cannot vote against party lines in parliament which put immediate question marks on the office of Hamza Shahbaz because the votes of the dissident PTI lawmakers stood uncounted. On the other hand, by-polls were held on the twenty vacant seats of Punjab Assembly in July which were swept by the PTI winning 15 of the 20 seats. After some political drama, in which Supreme court was called, victory finally came to PTI nominated Pervaiz Elahi who became CM Punjab. While the PML-N has vowed to complete its term, the loss of the powerful Punjab province leaves it considerably weaker, prompting louder calls for early general elections. If early elections take place, the market should take the development as a positive one, as this would hand over a fresh mandate of five years to the winning party (whoever it may be) to carry out economic reforms with time on its side and legislative power in the assembly.

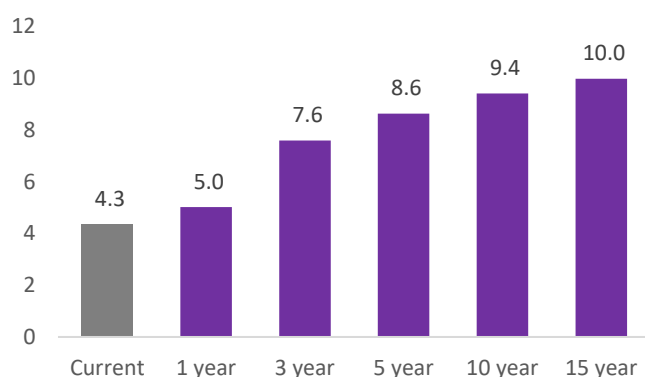
## Equity: Trough valuation indicates considerable upside potential

The stock market performance has been subdued during the last twelve months as macroeconomic conditions remained under pressure due to hefty rise in commodity cycle which resulted in higher current account deficit, rise in inflation and doubling of interest rate. This was exacerbated by heavy foreign selling, triggered by the outflows due to MSCI downgrading status of Pakistan market from Emerging Market (EM) to Frontier Market (FM) index. Net foreign selling amounted to USD 261 million during the last twelve months, concentrated mainly in the month of November. With global commodity prices rising primarily due to supply chain challenges and Ukraine situation, the import bill has touched its all-time high during FY22, while Current account deficit also reached its highest level in four years. During the year, political noise was on the rise with change of government on Federal level, while IMF program faced interruptions, due to populist measures taken during the year amid high commodity prices.

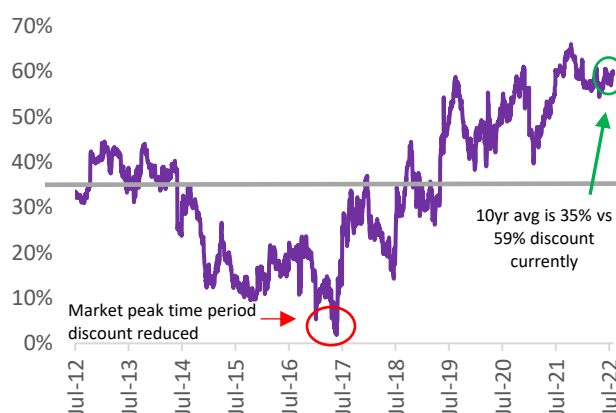
On the positive side, corporate earnings came in largely above market consensus expectations, while dividend payouts also staged a healthy rebound. Pakistan's economy grew strongly during FY22 with an impressive GDP growth rate of 6.0%, thanks to the monetary and fiscal stimulus measures taken during FY21. Positive development related to FATF has also come, with exit from grey list likely to occur in October review. While the economic growth is expected to continue during FY23, the easy gains in growth from rebounding activity are most likely behind us as policy tightening measures take hold. Necessary but unpopular decisions have been taken recently in order to ensure the resumption of IMF program.

As we look towards FY23 and beyond, our long-term outlook for equities is optimistic amid a backdrop of strong earnings growth, attractive valuations and gradual structural adjustments. Our bullish outlook of the market is reinforced when we compare the market with its own historical track record, with KSE-100 index currently trading at trailing PE multiple of only 4.3x. This is in stark discount to its last five-year average PE of 8.6x, while long term average PE of last fifteen years of 10.0x also shows that there is considerable upside potential.

**KSE100 Index Average PE (Trailing)**



**PSX at 59% discount to MSCI Frontier Market vs 10 Year average discount of 35% (on P/E basis)**

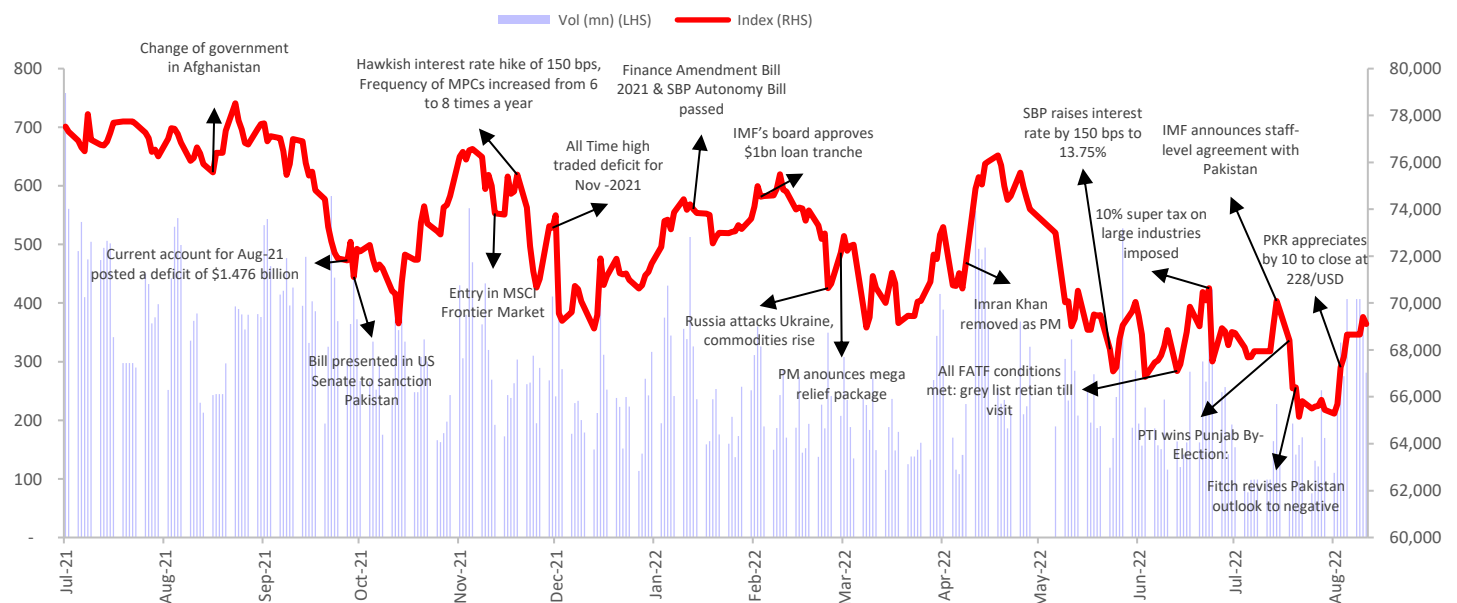


Pakistan has historically outperformed the Frontier and Emerging market by a healthy margin of 5-6% over the long run, despite the recent few years of underperformance as Developed markets have been at the center of attention of global investors for last few years. PSX's discount to MSCI FM is still near its highest level in over a decade (59% discount) as a result of divergence from FM performance amid high PKR devaluation since CY2018. The discount has widened over the years due to persistent foreign selling that had kept the market in a strong bear grip. However, we expect this discount

to narrow after IMF program resumption, improvement in forex reserves position and gradual progress on much needed structural reforms by the government.

With market P/E at extremely attractive level compared to its long-term average P/E, we remain bullish on equities reverting to its long term CAGR return of 17% as witnessed in last 20 years. Our fundamental analysis favors an upward trajectory in the local equity market on the back of structural reforms, the entailing macroeconomic recovery, the re-rating of the market and the mean reversion of the index in the near term. Political stability in the country and geopolitical events will remain catalysts for the performance of the stock market. Political situation is likely to remain volatile due to strong possibility of early election. A new government with fresh mandate of five years will have ample room to further implement structural reforms, thus we expect the political landscape to gradually move towards calmness and harmony.

### Event chart for KSE100 Index

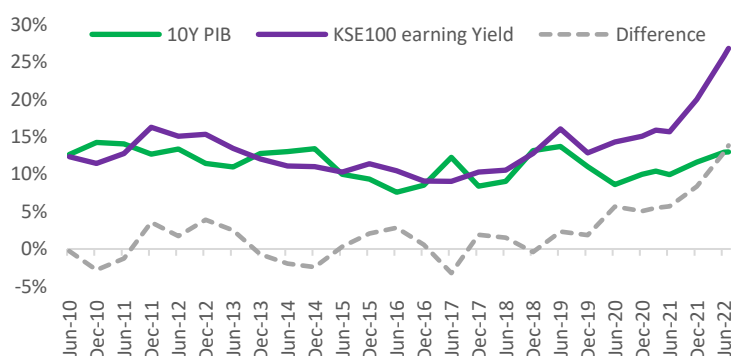


## Equities remain attractive due to robust corporate earnings and discounted valuations despite high interest rate

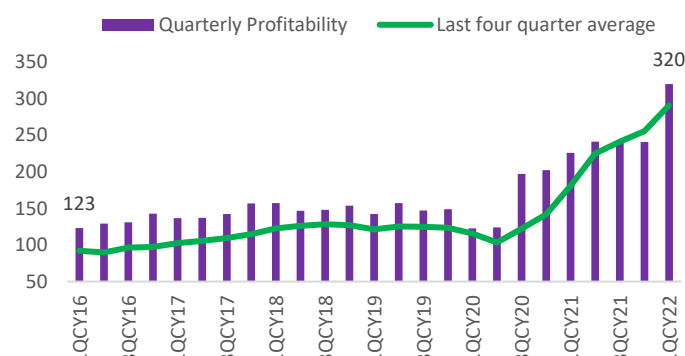
The equity market is still attractive versus fixed income given its cheap valuation despite interest rates being at multidecade high as the market is currently trading at multiples even lower than the FY09 crises. Current P/E multiple of 4x comes on the back of robust corporate earnings growth and stands much below the long term average P/E multiple of around 8x. This has resulted in significant gap between Earnings Yield (E/P) and yields on the 10-year PIB. Historical difference between the two has been around 2.5% while the current spread has increased to 13.8% which implies that market is trading at a substantial discount to its historical level and should re-rate fundamentally. Thus, at this point equities should be the preferred asset class, particularly for investors with a long-term horizon, such as life insurance companies, retirement funds and government pension funds.

After witnessing slowdown in corporate profitability during peak Covid-19 quarters of March and June 2020, the corporate profitability has witnessed a healthy surge since then. We have witnessed strong corporate results since the last four quarters, with decent cash payouts as well. The corporate result for June-22 quarter also initiated but the results are marred by the hefty one-off super tax impact on bulk of blue-chip companies which is resulting in lower corporate profitability on QoQ basis and also impacting dividend payout for the quarter, although pre-tax earnings remain robust. Going forward corporate earnings growth for FY23 is projected to continue showing double digit growth as almost all sectors have strong pricing power and provide dollar hedge.

**Trend of Earning Yield and 10Y PIB**



**KSE100 Index Companies Profitability improving**



## Turning corner on default risk

After increasing worries of Pakistan defaulting on foreign debt payments, investors finally felt some comfort following some stability in Pakistan global bonds' yields. The Pakistan 5yr Credit Default Swap (CDS), which simply is the rate of insuring lenders against a possible default on loans, dropped by over 1700+ bps overnight on 11th of August 2022. The rate previously exceeded FY09 levels to over 3500 bps, reflecting increasing discomfort amongst investors regarding the country's debt repayment ability.

To put things into perspective, Pakistan's 5yr CDS started off CY22 at 376bps and things escalated pretty fast since then as the government delayed taking unpopular economic measures amid a heated political environment. After double digit devaluation of PKR, sharp jump in near term bond yields to over 40% and over 3,000 bps jump in CDS, sanity finally prevailed with the necessary steps to secure the IMF program finally taken. As a common Chinese proverb goes, "A journey of a thousand miles begins with a single step". It seems the right steps were taken and hopefully this trend will continue.



### Pakistan's CDS declining after reaching similar level witnessed in FY09



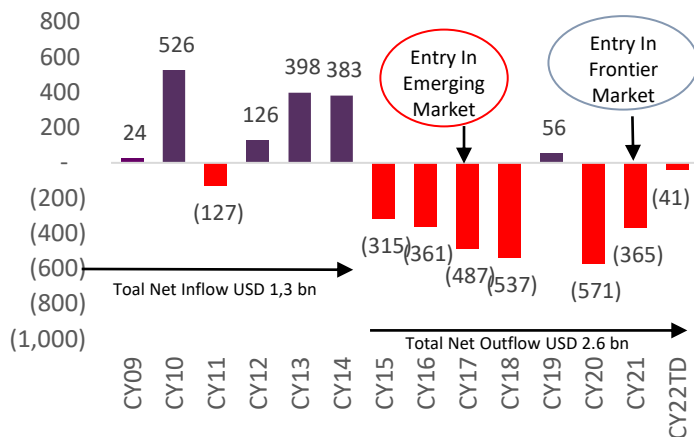
Historical data shows that the performance of PSX is closely intertwined with the external account prospects of the country. Whenever the external account crises have occurred, the market has witnessed a period of negativity whereas whenever the external account prospects have improved, the market has given an exceptional return in the subsequent years post external crises subsiding. Taking cue from previous CDS peak witnessed during FY09, shows that the KSE-100 returned a handsome 330% return in the subsequent five year, which highlights the potential return which stock market can provide once economic situation stabilizes.

### Selling by foreigners has slowed down while market looks attractive among other countries facing external debt issues

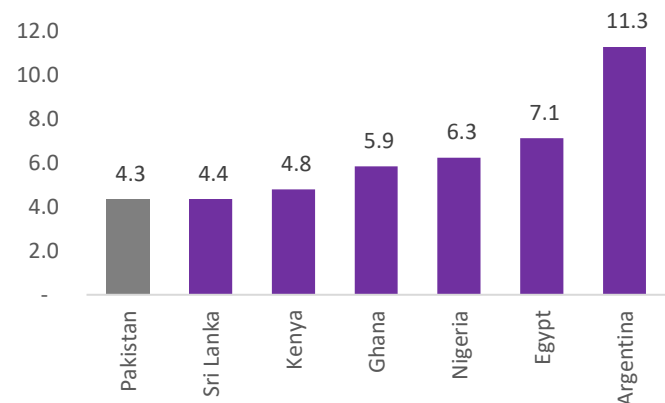
Pakistan's equity indices have largely underperformed the key emerging and frontier markets during the few years, following sizeable foreign outflows with the recent exit from MSCI EM in CY21 marking an end to this dismal trend of foreign outflows. During CY22 to date, foreign outflows have been negligible despite hefty PKR devaluation confirming low level of foreign fund ownership. We believe that in absence of the any major selling pressure, the market has a greater chance to show positive trend once economic situation stabilizes. However, key risk of capital outflows from other developing countries is occurring due to high inflation globally resulting in developed market rate hikes, causing a risk-off shift from Emerging Market assets in CY22. The dollar index has strengthened versus basket of developed currencies during the year, particularly leading to broad based pressures in EM currencies, making foreign inflows unlikely this year.

Persistent foreign selling has been one of the key reason attributable to the underperformance of PSX versus regional peers. Since the beginning of the year 2015, the market has witnessed a net sell of USD 2.6 bn by foreigners which is sizable considering the limited appetite of the local players. Local individuals and institutions primarily countered the liquidations. Due to large and persistent sell-off, the market lagged the key regional peers and even those markets that were affected by country specific economic turmoil.

### Net Foreign Flow (USD Mn)



### Trailing PE of developing countries facing external debt issues



Source: PSX, Bloomberg

Apart from comparing Pakistan with its historical PE or Frontier Market Index PE, we compared Pakistan with other countries facing similar external account issues to see how it fares. Unsurprisingly, versus other vulnerable countries as well Pakistan's market is attractive, highlighting its upside potential. With corporate earnings growing at steady pace and global commodity cycle easing and resumption of IMF program, the PKR is expected to stabilize. We also expect foreign selling to eventually taper off, amid limited holding of foreigners and attractive Price to Earnings multiple compared to regional countries. Looking at key valuation matrix of Pakistani market versus MSCI FM shows that it fares well on all counts with forward P/E trading at a substantial discount of 3.7x versus 10.1x for FM. Dividend yield for Pakistani market is also considerably higher at 8.0% versus 4.4% for FM, while on a P/B basis also Pakistan is trading at discount of 0.8x versus 1.8x for FM. This leads us to believe, that eventually active funds of frontier market will likely keep an overweight stance on Pakistan.

## Conclusion & Recommendation

The global economic slowdown is underway while commodity prices have started coming down after reaching their peak few months back but further drop is possible if any resolution on Ukraine situation arises. During winter, energy prices may rise due to seasonally higher demand, however if Ukraine war comes to an end or any breakthrough occurs on Iran Nuclear deal, it will likely lead to further fall in energy related commodities. The government has initiated much needed belt tightening measures in order to reduce fiscal deficit in FY23, while turning primary balance in surplus which is expected to result in GDP growth moderating to 3-4% in FY23, as per SBP. Although further tightening cannot be ruled out, we don't see policy rate rising too much from current high level of 15.0% as economic slowdown is underway while commodity prices have started coming down. Current account deficit is projected to drop gradually in FY23 and more so in FY24, provided commodity cycle continues to cool down.

For the equity market, we expect the renewal and eventual completion of the IMF program as the key trigger for FY23 which will help Pakistan achieve much-needed fiscal discipline. Once the IMF clears the next tranche, it should open up other external finance avenues for Pakistan to shore up its reserves. Positive outlook for the market remains on back of robust corporate earnings growth and very attractive valuations with P/E around 4.0x compared to its long-term average P/E of 8.0x. Although the short-term equity market performance is likely to remain range bound until forex reserves increase, medium term performance, is likely to be encouraging following tough economic actions, likely decline in commodity prices and, interest rates reverting back to long term mean. Therefore, we recommend our investors to focus on the above-mentioned factors and build equity positions in their portfolio via direct investment or through mutual funds to benefit from the upward trend.

In the light of our favorable stance for investment in equities, Al Meezan offers exposure to equities through a range of mutual funds in its product suite depending on one's risk tolerance level. For long term investor with high risk tolerance we recommend our flagship Meezan Islamic Fund (MIF), which hosts an AUM of Rs. 22.7 bn as of July 31` 2022, while Al Meezan Mutual Fund (AMMF) has a track record of more than twenty-seven years. We have also launched Pakistan's first Shariah-compliant ETF called Meezan Pakistan ETF (MP-ETF) which provides exposure to the top liquid Shariah-compliant stocks in the market.

For investors with medium-risk tolerance, Al Meezan offers Meezan Balanced Fund (MBF), investing partially in equity and fixed income, while Meezan Asset Allocation (MAAF) is also a hybrid fund with exposure in both equity and fixed income.

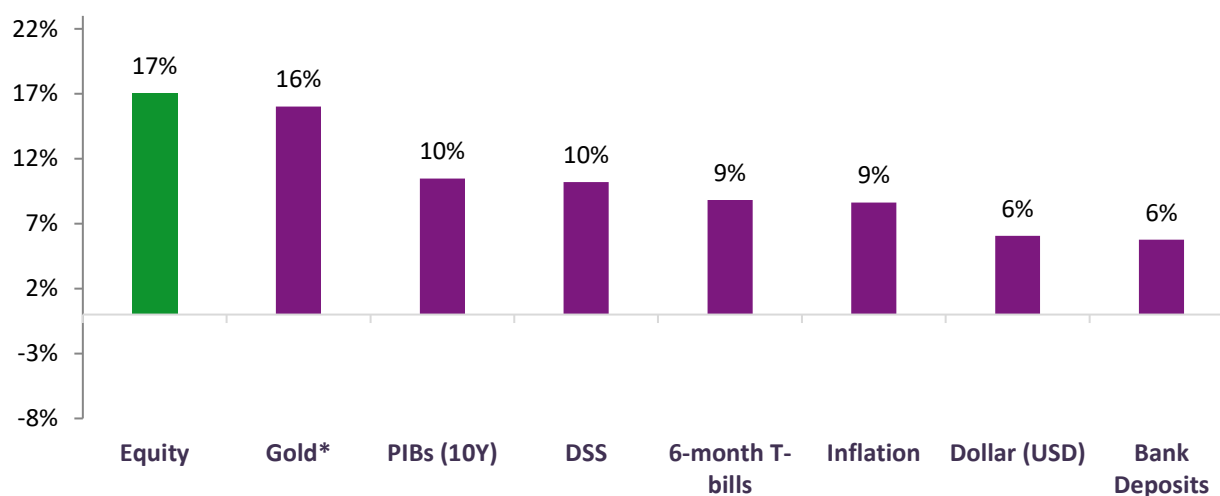
## Asset class returns

Equities has historically outperformed other asset classes in the long run

### Investment Avenues – 20 Years (% Returns)

Period	Equity	Gold*	Defense Saving	10 Year Govt. Bonds	Inflation	6-month T-bills	Bank Deposits	Dollar (USD)
FY03	92	6	11	7	3	4	3	(4)
FY04	55	15	8	6	5	2	2	0
FY05	41	13	8	8	9	5	2	2
FY06	34	43	9	9	8	9	4	1
FY07	38	6	10	10	8	9	5	0
FY08	(11)	61	10	11	12	10	5	13
FY09	(42)	19	12	14	21	13	7	19
FY10	36	41	12	12	13	12	6	5
FY11	29	22	13	14	14	13	7	0
FY12	10	17	12	13	11	12	6	10
FY13	52	(19)	12	12	7	10	5	5
FY14	41	7	12	12	9	10	5	(0)
FY15	16	(9)	11	11	5	9	5	3
FY16	10	16	8	9	3	6	4	3
FY17	23	(6)	8	8	4	6	6	(0)
FY18	(10)	17	8	8	4	6	7	16
FY19	(19)	51	10	12	8	10	10	34
FY20	2	30	10	11	11	12	10	3
FY21	38	(7)	9	10	9	7	6	(7)
FY22	(12)	33	11	11	12	11	10	30
CAGR	17	16	10	10	9	9	6	6

### Investment Avenue- 20 Year CAGR



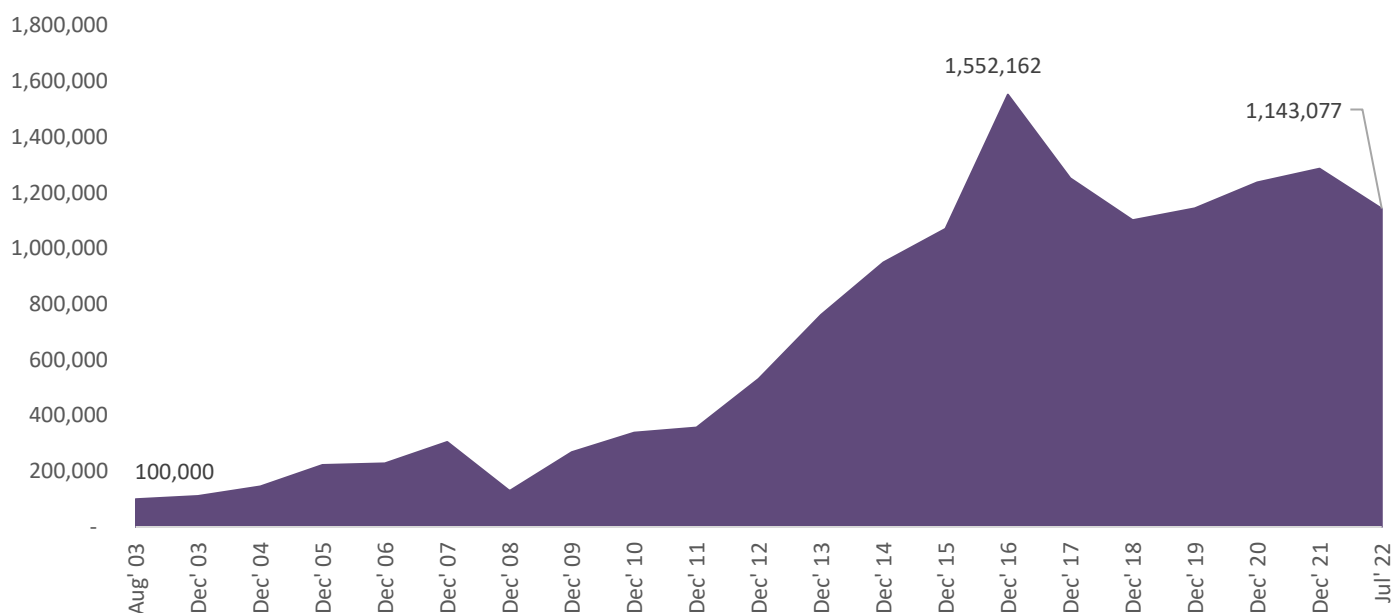
## The Right Direction

Al Meezan Investments continuously strives to give highest possible risk-adjusted returns to its valued investors. Financial specialists at Al Meezan Investments apply their proficient skills and knowledge in selecting the most fundamentally strong assets that considerably increase the value of our funds even in times of political instability.

## Meezan Islamic Fund (MIF) – Rock Solid for Long Term

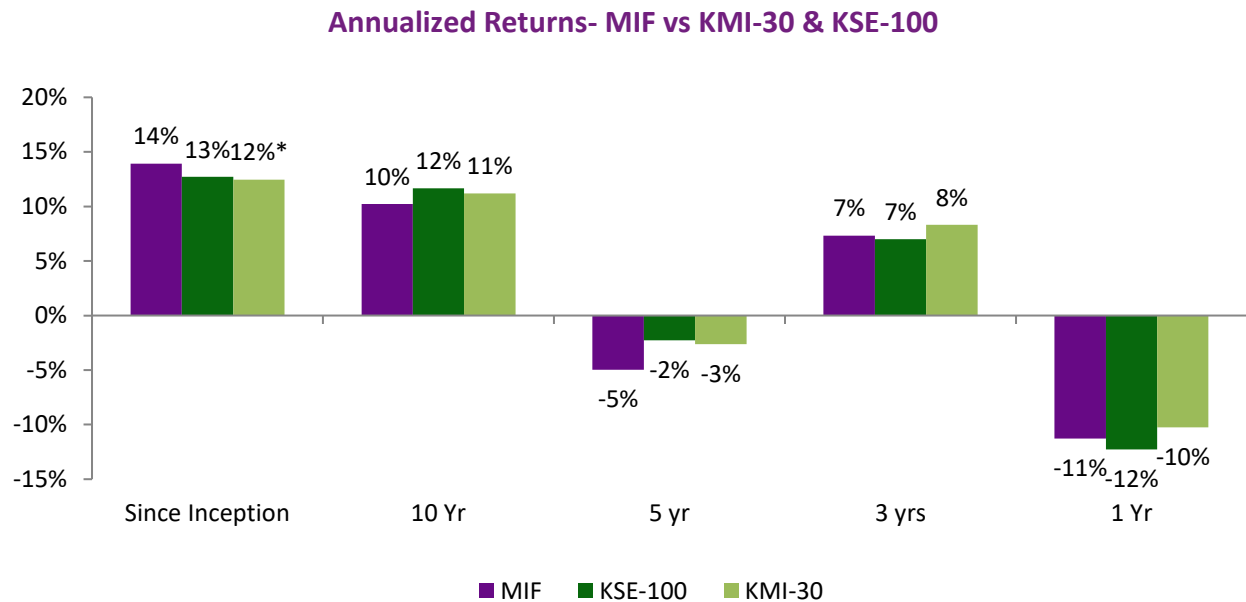
Our star open-end mutual fund Meezan Islamic Fund, has amassed a past filled with over 18 years of providing Sharia compliant equity exposure to its investors. Current AUMs are of around Rs. 22.7 bn as of July 31, 2022. Assuming an investor made an initial investment of Rs. 100,000 in MIF on its inception date in August, 2003 and did not make any withdrawals, his investment would now have grown to Rs. 1,143,077 (till July 31, 2022), earning 13.69% CAGR, while benchmark return stood at 12.12%. Equity has always remained the best performing asset class for long-term investors willing to withstand short to medium-term volatility.

**MIF Investment Growth**





The graph below shows the annualized returns (till June 30, 2022) of MIF, KMI-30 and KSE-100 for the past 1, 3, 5, 10 years and since inception.



\* KMI-30 replaced DJIIMPK as the Fund's benchmark from July 01, 2009, while KSE-100 index remained as the benchmark till June 30, 2006.

## Fixed Income: Yield curve has shifted from upward sloping to inverted

The central bank significantly raised the policy rate by a cumulative 525bps during the period Jan-22 to Jul-22 to consolidate demand, control inflationary pressures and manage external imbalances to arrest the sharply depreciating rupee. Due to the hike in the policy rate, T-bill yields rose in the range of 445bps to 535bps. By the end of the period, 3, 6, and 12 months T-bill closed at 15.70%, 15.77%, and 15.87% respectively, while PIB yields stood at 13.65% (3 Years), 12.87% (5 Years), and 12.85% (10 Years). Long-term PIB yields showed an upward trend in the range of 123bps to 223bps. KIBOR rates also witnessed an increase in the range of 447bps to 532 bps, whereby 3-months, 6-months, and 12-month KIBOR rates were up by 532bps, 447bps & 447bps, clocking in at 15.86%, 15.93%, and 16.27%, respectively.

On the liquidity front, the money market remained stable due to regular short- and medium-term Open Market operations (OMO) from SBP, which ensured that the overnight rates remain close to the policy rate & T-bills rates below the discount rate.

In the FX market, the rupee depreciated heavily during this calendar year starting at PKR 176.5/USD. The rupee made a low of PKR 240 on July 28th due to news related to the delay in the IMF program and declining foreign exchange reserves. However, since then it has appreciated in August on the back of news of inflows from friendly countries and IMF's news of all conditionalities being met.

### Secondary Market Yields Snapshot:

	Jan-22	Aug-22	Difference from Jan 2022
<b>SBP Policy Rate</b>	<b>9.75%</b>	<b>15.00%</b>	<b>5.25%</b>
<b>GoP Securities</b>			
6- Months T-Bills	11.32%	15.77%	4.45%
10-Year Pakistan Investment Bonds (PIBs)	11.62%	12.85%	1.23%
Ijarah Sukuk	11.20%	15.59%	4.39%
<b>Corporate Instruments</b>			
TFCs (AA rated and above)	9.96%	13.30%	3.34%
Corporate Sukuk	7.95%	12.27%	4.32%

Highest and Lowest Yields for the Period January 2022 to August 2022		
<b>T-bills</b>	<b>High</b>	<b>Low</b>
T-Bill 3 Months	15.70%	7.20%
T-Bill 6 Months	15.77%	7.38%
T-Bill 12 Months	7.90%	7.26%
<b>PIBs</b>	<b>High</b>	<b>Low</b>
PIB 3 Year	14.07%	8.64%
PIB 5 Year	13.44%	9.23%
PIB 10 Year	13.24%	9.85%

### Shariah Compliant end of the Money Market

The central bank conducted GOP Ijarah Sukuk auctions regularly as the issues related to the availability of assets were resolved and new assets were added during the year to tap excess liquidity from the market at cheaper terms compared with that in the conventional market. Islamic market participants welcomed the auctions with heavy participation to increase their investment portfolios to better deploy their liquidity compared to available low money market rates.

During the period under review, the central bank borrowed a total of Rs. 964 billion from Islamic participants. Out of the total issuances, the government picked up Rs. 668 billion by issuing floating rates and borrowed Rs. 297 billion through fixed-rate Ijarah Sukuk.

To enhance monetary policy transmission and to better manage market liquidity, the SBP introduced Shariah-compliant modaraba-based open market operations (OMO-Injections) and a standing ceiling financing facility (MFF) for Islamic Banking Institutions in December 2021. The corporate sector continued facing challenges in raising money through long tenor Sukuk; however, an increase in the issuance of shorter tenor instruments was witnessed during the year. Details of available Ijarah Sukuk as follows:

#### Floating Rate Ijarah Sukuk

Ijarah	Issue Date	Coupon	Next Reset	Issue Size (bn)	Maturity	Market Price and Yield	
						11-Aug	YTM
XX	30-Apr-20	13.46%	30-Oct-22	76.39	30-Apr-25	96.94	15.78%
XXI	29-May-20	14.60%	29-Nov-22	74.62	29-May-25	100.03	15.46%
XXII	24-Jun-20	14.85%	24-Dec-22	47.24	24-Jun-25	99.74	15.60%
XXIII	29-Jul-20	15.48%	29-Jan-23	186.91	29-Jul-25	99.96	15.50%
XXIV	9-Dec-20	14.85%	9-Dec-22	227.26	9-Dec-25	99.73	15.62%
XXV	6-Oct-21	12.15%	6-Oct-22	190.53	6-Oct-26	99.73	15.50%
XXVI	29-Oct-21	14.61%	29-Oct-22	584.86	29-Oct-26	99.88	15.59%
XXVII	27-Apr-22	13.53%	27-Oct-22	497.29	27-Apr-27	99.55	15.69%

#### Fixed Rate Ijarah Sukuk

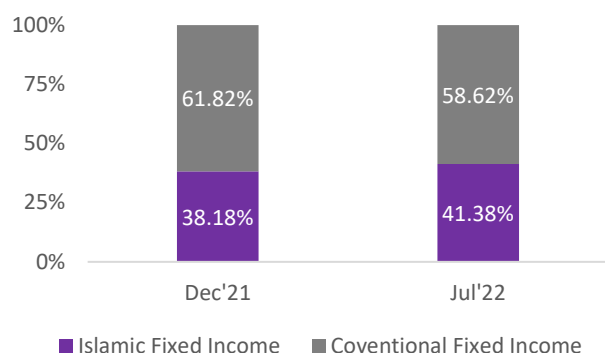
Ijarah	Issue Date	Coupon	Issue Size (bn)	Maturity	Market Price and Yield	
					11-Aug	YTM
XXIII	29-Jul-20	8.37%	44.59	29-Jul-25	93.63	10.94%
XXIV	20-Jan-21	9.45%	8.25	20-Jan-26	93.68	11.73%
XXV	6-Oct-21	9.70%	12.73	6-Oct-26	93.37	11.75%
XXVI	15-Dec-21	11.40%	323.83	15-Dec-26	96.00	12.61%
XXVII	27-Apr-22	12.49%	41.49	27-Apr-27	98.73	12.84%

During the period under review, it is also encouraging to note that many new blue-chip corporates from Power and Pharma sectors have explored financing through the Shariah-compliant debt market. Corporates mainly targeted the short-term floating rate instruments for the working capital requirements at relatively better spreads compared to conventional alternatives like TFCs and bank loans. On the other hand, a consistent increase in the issuance of new Sukuk (both government and corporate) have aided the Islamic mutual funds in offering higher returns to investors along with managing their liquidity effectively.

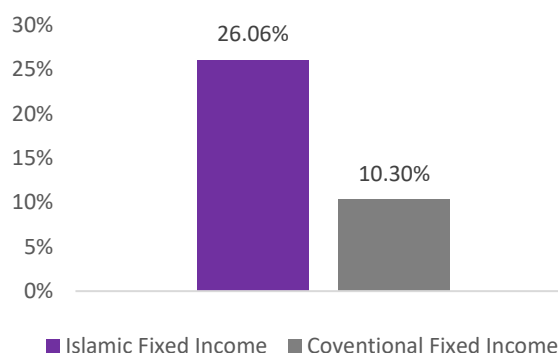
Going forward, Sukuk issuances are expected to grow as the Government is adamant to increase the share of Islamic debt in the overall domestic debt. The Ministry of Finance is targeting to expand the share of Islamic borrowing to 10% which indicates more regular issuances of Islamic government securities in the future.

## Comparison of Growth in Fixed Income Funds

Market Share of Fixed Income Funds



CY22TD Growth (Till Jul'22)



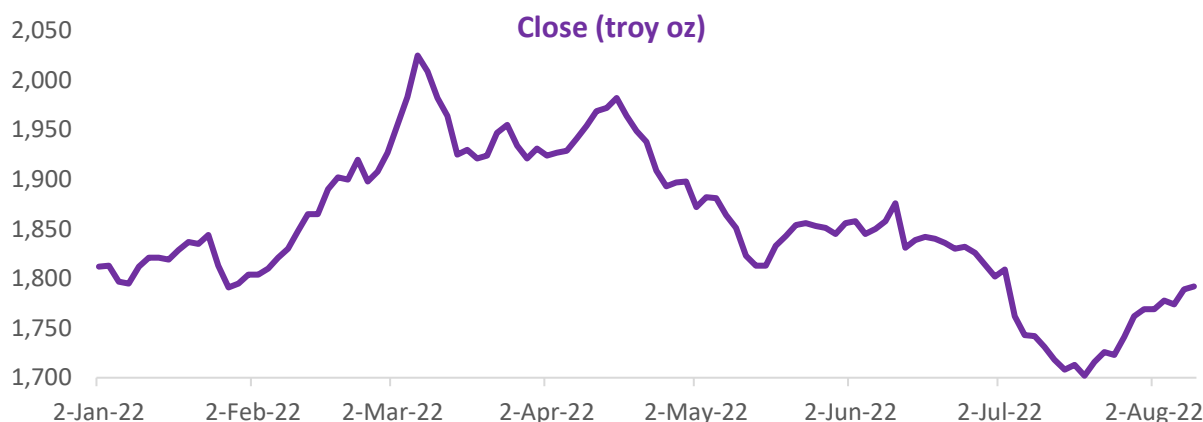
## Outlook

Our positioning in terms of reshuffling of assets in fixed income and money market funds will be closely linked to how SBP responds once policy rate reaches its peak level. For FY23, the Central bank projects inflation to remain in the 18-20% range due to higher international oil prices and adjustments in energy tariffs. However, we expect SBP will take a pause to see the impact of 5.25% rate hike in last few months and will not increase the interest rates significantly. State Bank of Pakistan, in our view, will manage negative real interest rate in the upcoming monetary policies keeping in mind the recent correction in International oil and commodity prices owing to global recessionary pressure.

For the next six months, we expect our Fixed income and Money market funds will continue to provide an attractive risk-adjusted rate of return to meet their investors' requirements due to the higher interest rate environment.

## Gold – Glimmer of hope...

Spot Gold (USD/Oz) in CY 2021



So far 2022 has turned out to be an eventful year for the yellow metal. International Gold prices started the year at around \$ 1,812 per oz and touched a high of \$2,043 per oz on March 7, 2022. This came on the back of increased geo-political uncertainty that we witnessed at the start of the Russia Ukraine conflict and resulting global supply chain disruptions which contributed to increase in global inflation. To combat inflationary fears investors rushed for safe haven investments like gold that pushed up the global gold price to above \$2,000 per ounce.

To combat global inflation, Central Banks around the world rushed to hike rates in order to curb inflation which had increased even further after global economies decided to place certain embargos on Russia as measure to condemn Putin's warmongering actions, which resulted in further supply chain shortages. At the same time, China resorted to intermittently shut down its major cities in light of Covid upsurge, which further added to inflationary pressures at a global level.

The US Federal Reserve announced its first 75 bps rate hike in March 2022, after which gold saw a major dip in mid May 2022 reaching a new support level slightly above \$ 1,800 per oz mark. Since then gold has seen ups & downs on the back of continued rate hikes from global economies in response to combat inflationary pressures, with particular focus on the Fed.

Covid-19 has also further popped up in 2022 with the emergence of new variant B.A.4.6 after the omicron variant.

Although, the emergence of this new variant did not have a significant impact on international economic affairs, investors cautiously looked towards the yellow metal whenever the stock market showed signs of volatility due to Covid-19 related factors.

Going forward, we believe that it is prudent to keep a watchful eye on potential portfolio risks, emanating from global factors such as continuing inflationary pressures, possible Covid-19 variants and other emerging global diseases like Monkey pox and most importantly the return to monetary tightening for most major economies across the globe.

We expect that gold presents a valuable opportunity for investors who seek to buy the yellow metal when it is weak and investors should continue to monitor the situation surrounding the Federal Reserve in particular to chart a future course of trajectory for gold prices. Such events should present valuable buying opportunity where attractive price levels can be targeted, especially by those seeking long term investment in the precious commodity, keeping portfolio risks in mind. We keep this view, especially at the time of writing this article, when Inflation report from the US has somewhat shown signs of cooling off, providing a glimmer of hope that future Federal reserve rate hikes might not be as aggressive as initially being thought, thus, somewhat favoring gold.



## Meezan Pakistan ETF: Pakistan's first & only Shariah Compliant ETF

Over the last 20 years the stock market has provided a return CAGR of almost 17%, in CAGR terms as at June 2022, thus making it a very attractive investment avenue for investors. However, it is also true that the stock market is not for the faint of heart as the course of its performance period is rife with many ups and downs. In fact, these rounds of volatility can even be seen during a single day. The stock market may initially be negative in the morning, only to turn positive by the afternoon. The pandemic has further exacerbated this volatility and is also keeping investors on edge.

Exchange Traded Funds (ETFs) are a very suitable investment vehicle, particularly for first time investors who are not experts in this area, but aim to test the waters with their investment. ETFs can allow investors to get an exposure to a diversified basket of Pakistani Stocks by simply approaching their broker and making a trade at prices that are readily available to them during market hours.

### Benefits of an ETF:

An ETF is similar to a Mutual Fund; however, it has certain important characteristics that make it significantly different when compared directly to a regular Mutual Fund including but not limited to:

- It enjoys the diversification advantage typically available in Mutual Funds, as it consists of a basket of securities. It is also unique in the sense that its units trade just like a share of stock. The investor can easily approach a broker to buy or sell an ETF unit any time during trading hours, when the stock market is open for business.
- Unlike an Open-End Mutual Fund, an ETF provides continuous trading price throughout the trading day. This feature is also similar to a share of stock, where price of any stock is available throughout the day. In contrast with an Open-End Mutual Fund where NAVs are generally available only at end of business day.
- Well diversified ETFs generally permit the investor to purchase a basket of stocks in one-go, without having to buy individual stocks and perhaps incur higher transaction costs. Hence exposure through ETFs may in fact lead to reduction in cost for an investor.
- Passive Equity ETFs typically have a passive strategy and may have low management fees, perhaps without any sales-load as well. This may make passive ETFs cost-effective means to take exposure to stocks in a particular index strategy that the ETF aims to mimic.
- Normally the portfolio of the ETFs and its constituents are available to investors each day, thereby enhancing transparency. When one compares this feature with Open-End Funds, one realizes that such funds generally disclose a certain percentage of their holdings in their Fund Manager Reports which are normally available at end of the month. Thus, investors have the added advantage of tracking an ETF portfolio whenever they like.

### Meezan Pakistan Exchange Traded Fund (MP-ETF):

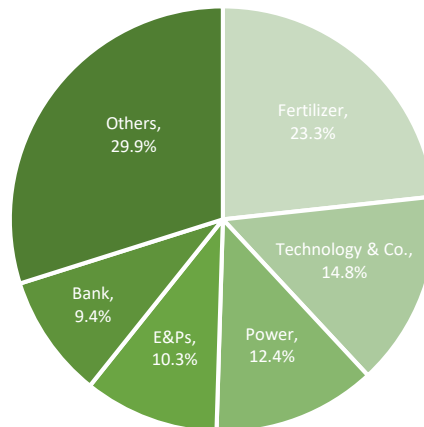
Al Meezan Investment Management Limited is the first Asset Management Company (AMC) in Pakistan to launch several new Shariah Compliant products in the market.

Keeping up this tradition to be the "first-to-the-market", Al Meezan became the first AMC to launch a Shariah Compliant Equity ETF on October 06, 2020, called Meezan Pakistan ETF (MP-ETF).

MP-ETF provides investors with a diversified exposure to key sectors of the Pakistan Stock Exchange (PSX) such as Cement, Oil & Gas Exploration (E&Ps), Fertilizer, Oil & Gas Marketing (OMCs) and Pharmaceuticals. The MP-ETF has an underlying basket of 12 stocks, derived from the sectors mentioned above.

MP-ETF offers exposure to high quality, liquid shariah-compliant stocks in the market. Investors can garner exposure in MP-ETF, while maintaining a sense of security that the fund's operations are fully approved by its Shariah Advisor (Dr. Muhammad Imran Ashraf Usmani Sb).

### Exposure to various sectors (MP-ETF)



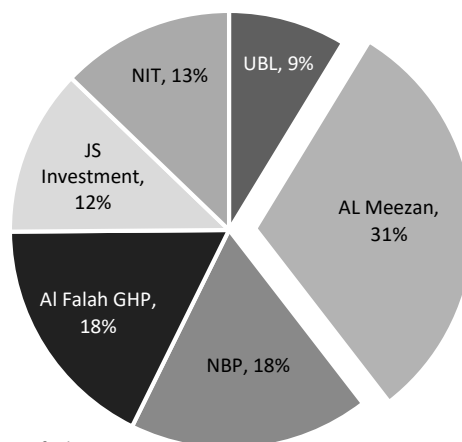
As of July 2022

Investors investing in stock market with a broker account can simply request their broker to purchase shares of MP-ETF from the stock market. These can be monitored by the investor by viewing the price display on the PSX website, on their respective brokerage trading panel.

At the time of writing this article, five other AMCs have also launched their ETFs on Pakistan Stock Exchange. Therefore, currently in the industry there are a total of six ETFs. With Al Meezan having the only Shariah Compliant ETF, available for the exclusive benefit of investors who are Shariah conscious in nature and seek halal investments.

We expect that more AMCs will be launching their ETFs soon, thus creating space for healthy competition along with developing this segment of the market and ultimately benefitting the investors who wish to take exposure to Pakistani stocks in a cost effective, efficient and prudent manner.

### Market share



As of July 2022

## Meezan Fixed Term Fund: Another first to market

### (A new Collective Investment introduced by SECP for investors)

Traditionally, mutual fund investors in Pakistan had limited to no options for investing in products with short to medium term investment horizons while also enjoying predetermined fixed returns. Such opportunity was only available with scheduled banks that offered the desired investment horizons but with limited upside potential, through their deposit products mostly.

In-order to cater to this segment of investors, SECP worked tirelessly to launch a new category of Collective Investment Scheme to serve this segment of the market. They called it “Fixed Rate/ Return category” and introduced it through SECP Circular No.3 of 2022 dated February 10, 2022.

SECP had been very cooperative towards this initiative and also led this initiative from the front while taking industry stakeholders on board.

### Meezan Fixed Term Fund (MFTF):

Keeping up our tradition to be the “first-to-the-market”, Al Meezan became the first AMC to launch a Shariah Compliant Fund as per this circular No. 3 of 2022, dated February 10, 2022, to be called “Meezan Fixed Term Fund”. The fund was launched on May 30, 2022.

MFTF is a Sharia compliant scheme with provision for allocation plans. In this Fund investors are given the opportunity to invest & lock investment proceeds for a predetermined period of time at a certain expected rate of return.

MFTF primarily offers exposure to high quality TDRs and money market placements/ Instruments available in the market. Being Shariah compliant in nature, all operations of the fund are approved by the fund’s Shariah Advisor

MFTF Fund strives to offer higher rate of return as compared to TDR of corresponding maturities offered by Islamic Banks and Islamic Banking Windows. Under the Fund, the investor is given the option to redeem and invest on periodic basis. However, redemption before maturity is subject to applicable Contingent Load. The allocation plans under the fund will either be rolled over or matured.

The target audience of MFTF are investors with short to medium term investment horizon (minimum 6 months, maximum 1 year or any other period), who anticipate that they will require liquidity after such time period has elapsed (i.e. not require liquidity prior to expiry of 6 months or 1 year, as the case maybe).

#### Key Benefits of the Fund Include:

- Competitive Halal Returns (Investment in Shariah Compliant Islamic Instruments).
- No Front-End Load.
- Very Low Risk Product; suitable for investors looking for short to medium term investment horizon.
- Easy Access through Mobile Application and Meezan Funds Online.
- Easy Online Investment and Redemption Facility available.
- Over 27 years track record of managing your investments.



# Marketing Highlights - FY 2022

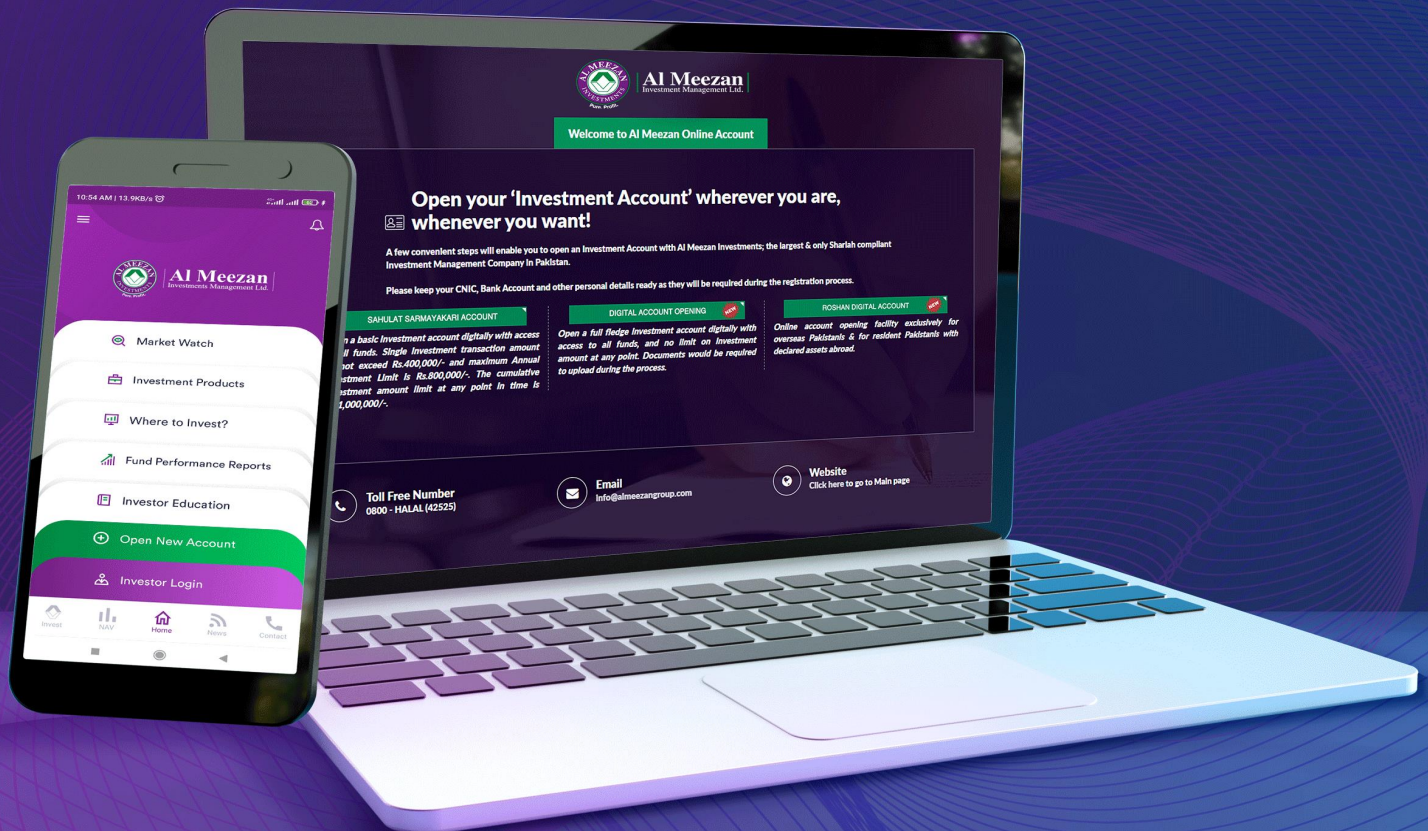
Contributors: Yousuf Kamran | Saman Banatwala | Safi Uddin

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## AWARDS AND ACHIEVEMENTS



**"Asset Management Company of the Year "** at the 6th IFFSA ceremony.



**"Best Fund Over 3 Years - Meezan Sovereign Fund"** at the Refinitiv Lipper Funds Awards 2022, Global Islamic.



**"Brand of the Year 2021"** in the category of Asset Management Investment Advisory (Islamic).



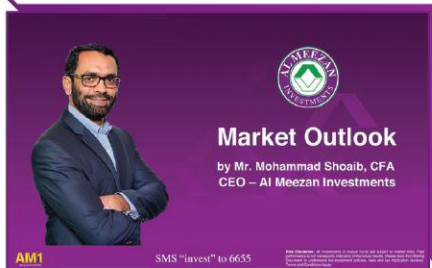
Mr. Mohammad Shoaib, CFA, CEO  
Al Meezan Investments, recognized by Asia  
Asset Management as **"One of the Top 25  
Leaders in Asset Management"** in Asia.



## INVESTOR AWARENESS INITIATIVES

Al Meezan Investments held a series of webinars, podcasts and participated in conferences for product and category awareness.

Monthly Outlook by Mr. Mohammad Shoaib, CFA  
CEO – Al Meezan Investments



ZOOM It – A Series of Webinars throughout the year for product and category awareness.



Mutual Fund Awareness through different Podcasts

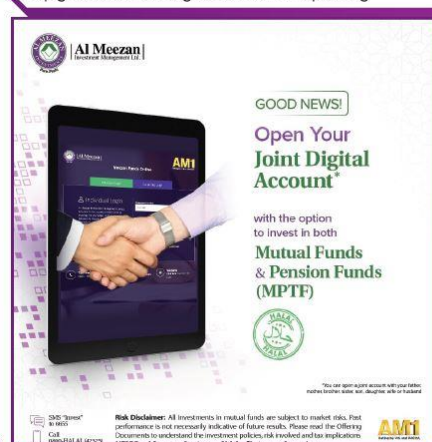


## Innovative Investment Solutions – Wherever You Are, Whenever You Want

Launch of Joint Roshan Digital Account



Upgradation of Digital Account Opening



Upgradation of Sahulat Sarmayakari Account



## NEW PRODUCT LAUNCHES

### Launch of Meezan Daily Income Plan-I (MDIP-I)

Al Meezan is proud to launch MDIP-I aimed to provide investors with a competitive rate of return, together with DAILY PAYOUT.

### Re-Opening of Meezan Capital Preservation Plan-IX (MCPP-IX)

Al Meezan Investments re-opened the subscription for MCPP-IX in order for investors to earn competitive halal returns and aiming to provide capital preservation\*\*.

### Launch of Meezan Paaidaar Munafa Plan-I (MPMP-I)

Al Meezan is proud to launch MPMP-I, aimed to provide investors with a competitive rate of return, for a fixed tenure.



**LAUNCHING**  
**MEEZAN DAILY INCOME PLAN-I (MDIP-I)**

**KEY BENEFITS:**

- Competitive Halal returns
- Good Avenue for short to medium term investments
- Daily Distribution of Dividend, if any
- Monthly payout option available
- No Lock in Period Investors are entitled to Profits even if they invest for a day
- Easy Online Investment & Redemption Facility Available
- Easy access through Mobile Application & Meezan Funds Online

**Risk Disclaimer:** All investments in capital funds are subject to market risks. The value of units may go down or up based on the market conditions. The Investor is advised to Read and understand the contents of the Offering Document in order to make an informed investment decision. Risk factors mentioned in Chapter 2, Section 1, Sub-section 1.1 and 1.2 of the Offering Document are hereby notified to the investor.



**Capital Safe Secure Pure**  
**Meezan Capital Preservation\* Plan-IX (MCPP-IX)**

**SUBSCRIPTION IS OPEN FOR LIMITED TIME ONLY**  
**START INVESTING!**

**KEY FEATURES:**

- CAPITAL PRESERVATION\* 01
- DYNAMIC ASSET ALLOCATION 02
- NO CHARGES ON EARLY WITHDRAWAL 03
- SHARI'AH COMPLIANT INVESTMENT 04
- TAX BENEFITS\*\* 05

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**13.50%\***  
(expected annualized return)  
**Meezan Paaidaar Munafa Plan-I**

**3 MONTHS INITIAL MATURITY FROM CLOSE OF SUBSCRIPTION PERIOD**

**KEY BENEFITS & FEATURES**

- Competitive Halal Returns (Investment in Shari'ah Compliant Islamic Instruments)
- No Front-End Load
- Very Low Risk Product, suitable for investors looking for short to medium term investment horizon
- Easy access through Mobile Application and Meezan Funds Online
- Easy Online Investment and Redemption Facility available
- Over 27 years track record of managing your investments

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**Disclaimer:** All investments in mutual funds and pension fund are subject to market risk. Past performance is not necessarily indicative of the future results. Please read the offering document to understand the investment policies, risks and tax implications involved.

## RISK PROFILE OF COLLECTIVE INVESTMENT SCHEME/PLANS

Fund Name	Symbol	Funds Category	Risk Profile	Risk of Principal Erosion
Meezan Islamic Fund	MIF	Islamic Equity	High	High
Al Meezan Mutual Fund	AMMF	Islamic Equity	High	High
KSE Meezan Index Fund	KMIF	Islamic Index Tracker	High	High
Meezan Energy Fund	MEF	Islamic Equity	High	High
Meezan Dedicated Equity Fund	MDEF	Islamic Equity	High	High
Meezan Pakistan Exchange Traded Fund	MP-ETF	Exchange Traded Fund	High	High
Meezan Gold Fund	MGF	Islamic Commodity	High	High
Meezan Asset Allocation Fund	MAAF	Islamic Asset Allocation	High	High
Meezan Balanced Fund	MBF	Islamic Balanced	Medium	Medium
Meezan Islamic Income Fund	MIIF	Islamic Income	Medium	Medium
Meezan Sovereign Fund	MSF	Islamic Income	Low	Low
Meezan Daily Income Fund	MDIP-I	Islamic Income	Moderate	Moderate
Meezan Fixed Term Fund	MFTF	Open End Islamic CIS as per SECP's Circular No.3 of 2022	Very Low	Very Low
Meezan Cash Fund	MCF	Islamic Money Market	Low	Low
Meezan Rozana Amdani Fund	MRAF	Islamic Money Market	Low	Low
Meezan Financial Planning Fund of Fund	MFPP	Islamic Fund of Funds	Plan Specific (Medium to High)	Plan Specific (Medium to High)
Meezan Strategic Allocation Fund	MSAF	Islamic Fund of Funds	Plan Specific (Medium to High)	Plan Specific (Medium to High)
Meezan Strategic Allocation Fund - II	MSAF-II	Islamic Fund of Funds	Medium	Medium
Meezan Strategic Allocation Fund – III	MSAF-III	Islamic Fund of Funds	Medium	Medium



**Al Meezan**  
Investment Management Ltd.



*Al Meezan mein Itminan hai.*

**CONTACT US**

**0800-HALAL (42525)**  
**SMS “invest” to 6655**  
**[www.almeezangroup.com](http://www.almeezangroup.com)**

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NOTE: MEEZAN BANK'S ROLE IS LIMITED TO DISTRIBUTOR ONLY

**Risk Disclaimer:** All Investments 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, tax implications and risks involved. The performance data has been computed NAV to NAV with dividend re invested and does not include cost incurred by investor in the form of sales load etc. Use of the name and logo of Meezan Bank Limited as given does not mean that it is responsible for the liabilities/obligations of Al Meezan Investment Management Limited or any investment scheme managed by it.