



FROM THE CIO'S DESK:

Pakistan's Stock Market Sustains a Volatile Year!

Beaten Oil and CPEC Development Expected to Provide Much Needed Stimulus in 2016!

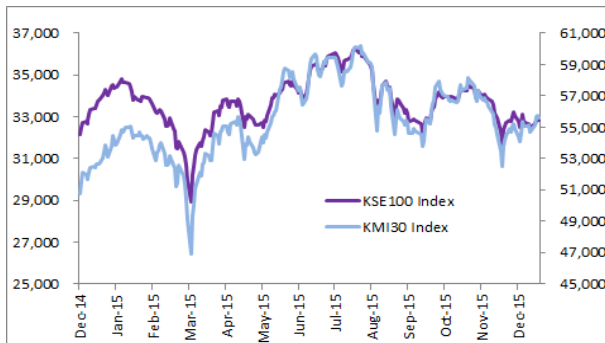
Dear Investor,

CY'15 turned out to be quite an eventful year both globally as well as locally, the impacts of which were also reflective in the stock market's oscillating movements throughout the year. The KSE-100 and KMI-30 indices, both showed a range bound behavior closing 2.13% and 9.60% up respectively on a YoY basis. However, our equity mutual funds comfortably outperformed the KMI-30 index during CY'2015 whereby Meezan Islamic Fund, Al Meezan Mutual Fund and Meezan Tahaffuz Pension Fund-Equity sub fund posted 12.66%, 10.21% and 16.50% returns respectively.

Mainly, the stock market showed a volatile behavior during the second half of CY'15 mainly on the back of foreign investment outflow; this worried the local investors but it is pertinent to understand the reasons behind this volatility. In the third quarter of this year, slow-down in the growth momentum of Chinese economy triggered a volatility chain over almost all international bourses as the international investors became jittery on fears of a global economic slow-down; the same impacted Pakistan's stock market as well as there was an outflow of investments from all emerging markets. During the fourth quarter, expectations regarding the US Federal Reserve Rate to rise (which materialized in the form of a 25bps increase towards the end of the year for the first time in a decade, drove the international investors to reallocate their investment portfolios accordingly as emerging economies usually witness an outflow of funds when interest rates rise in developed economies.

This sentiment jitteriness and changing fundamentals on the global front coupled with continuously declining commodities in the international market impacted many stock markets across the globe during this year as is evident in the table; it is worth noting however that Pakistan's stock market was one of the best performing markets during CY'2015.

The important point to note here is that despite a foreign selling of USD 315 million during CY'2015, the stock market has shown consistent resilience, thereby highlighting the confidence of institutional as well as individual investors in the market. Alongside, in the current interest scenario where the SBP has consistently reduced the Policy Rate over the last four and a half years and brought it down to a 42-year low at 6%, equities appear to be the best way forward for investors to meet their long-term investment goals.



Market	Index	31-Dec-14	31-Dec-15	Change
Egypt	EGX-30	8,927	7,006	-21.52%
Saudi Arabia	TASI	8,333	6,912	-17.06%
Dubai	DFM	3,774	3,151	-16.51%
Turkey	XU100	85,721	71,727	-16.33%
Kuwait	KSE	6,536	5,615	-14.09%
Brazil	Bovespa	50,007	43,350	-13.31%
Indonesia	JSX	5,227	4,593	-12.13%
Hong Kong	HIS	23,605	21,914	-7.16%
Srilanka	ASPI	7,299	6,895	-5.54%
India	BSE 30	27,499	26,118	-5.03%
UK	FTSE	6,566	6,242	-4.93%
Russia	RTSI	791	757	-4.32%
US-DJI	DJI	17,823	17,425	-2.23%
US-S&P 500	S&P 500	2,059	2,044	-0.73%
Pakistan	KSE 100	32,131	32,816	2.13%
US-Nasdaq	Nasdaq	4,736	5,007	5.73%
France	CAC 40	4,273	4,637	8.53%
Japan	N225	17,451	19,034	9.07%
China	SSEC	3,235	3,539	9.41%
Germany	DAX	9,806	10,743	9.56%
Pakistan	KMI 30	50,735	55,604	9.60%

Prices in USD			
Commodity	31-Dec-13	31-Dec-15	Change
Oil-Brent (per barrel)	111	37	-66%
Steel (per ton)	1,380	554	-60%
Copper (per ton)	7,360	4,705	-36%
Rubber (per ton)	183	93	-49%
Coal (per ton)	85	62	-27%
Gold (per ounce)	1,206	1,061	-12%

Ijarah Auction: Finally Some Respite for Shariah Compliant End of the Money Market

After almost a year and half, the SBP conducted a fresh Ijarah Auction right before the end of CY'2015 whereby Rs. 117 billion was accepted against a target of Rs. 100 billion. The cut-off yield in this auction was 6 months Treasury bill yield minus 50bps which coupled with a heavy participation level of Rs. 273 billion, basically highlights the desperation for fund deployment caused by the excess liquidity concern prevalent in the Islamic Money Market. The government is expected to

carry out a couple of more Ijarah Sukuk Auctions one of which has been scheduled for February 2016 while the timeline for the second one is still uncertain. All in all, the shariah compliant end of the money market is expected to witness a better liquidity scenario over CY'2016 since the new auctions and the Islamic OMOs/Bai Muajjals to be conducted by the SBP shall keep the Shariah Compliant market's liquidity in control.

Industrial Commodities Expected to Stay Under Pressure; Agricultural Commodities to Rise!

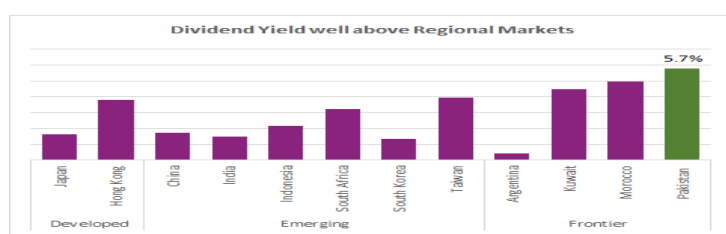
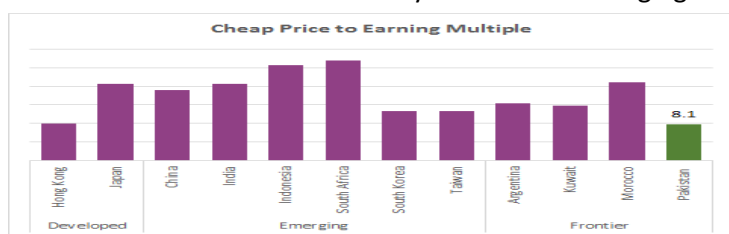
As evident in the table above, industrial commodities have seen consistent declines over the last two years with oil posting the sharpest decline of 66%. The recent tensions that have sparked up in the Gulf region have led to a slight increase in oil prices but this rise is not expected to lead to any significant recovery in prices of the crude. Steel, Rubber, Copper and Coal have also shown considerable declines which basically highlight how the Global economic activity has continued to witness sluggish growth and given the current international scenario, this trend is expected to continue thereby keeping these industrial commodities depressed for the foreseeable future. Changing weather patterns however, also known as the El Nino weather patterns, are expected to negatively impact the Global agricultural output and therefore, prices of agricultural commodities can be expected to remain firm.

Outlook going forward

The stock market has shown consistent resilience despite continued foreign selling during CY'2015. Given the improving economic fundamentals coupled with strong corporate profitability expectations ahead, the market is expected to gain momentum once again post the regulatory concerns between the SECP and the brokers are sorted out and Foreign selling dries out. Low oil prices on the international front are expected to persist in turn keeping the positives for oil importing economies intact. The government is also expected to stay firm on its privatization initiatives which are also a requirement under the IMF program; these privatizations are also expected to bring in fresh investment in the stock market. Development under the China Pakistan Economic Corridor (CPEC) is expected to be a game changer for Pakistan's economy and hence, it will also be a major trigger going forward in improving investors' sentiments and driving the stock market to new peaks. Therefore, in the current low interest rate environment, equities still appear to be a good alternative for higher returns.

Advice to our valued Investors

The KSE-100 index is very attractive currently based on its cheap multiples and strong fundamentals. The market is currently trading at a trailing PE multiple of 9.8x, a discount from the MSCI Frontier markets at 10.54x and MSCI Emerging markets at 13.0x PE. KSE- 100 has also maintained a higher trailing dividend yield of 5.7% as compared to 4.14% yield of MSCI Frontier markets and 2.82% yield of MSCI Emerging markets:



Given this attractively priced scenario of Pakistan's stock market and the potential still inherent in this market, we recommend that investors should take equity exposure to take advantage of the potential return. Once the foreign investors' selling halts, the stock market is expected to bud into a growth trend once again.

Overall, our stance remains positive on Pakistan's stock market; some volatility may persist in the near term but equities are expected to outperform other investment avenues over medium to long term. Investors with relevant risk profiles and investment horizons are advised to go through our Fund Manager Report hereunder for a detailed performance review of our mutual funds.