

# Newsletter

## Oct '07

### Contents

Financial market review	1
Economic review	2
Market risk review	3
FMR - UTP	4
FMR - UTP-AAA	5
FMR - UTP-ISF	6
FMR - UTP-IF	7
FMR - UTP-FoF	8
FMR - UTP-A30+	9
FMR - UTP-CPF	10
FMR - UTP-CPF II	11
FMR - UTP-CPF III	12



Managing UTP Mutual Funds

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# Heading

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Figure 1: FY07 Performance

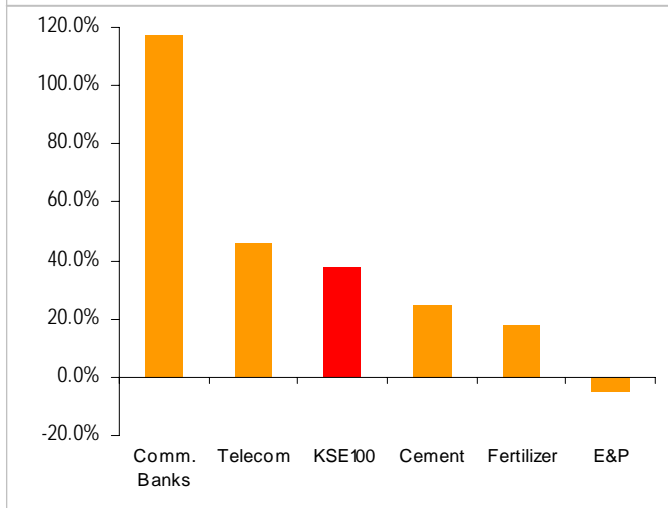
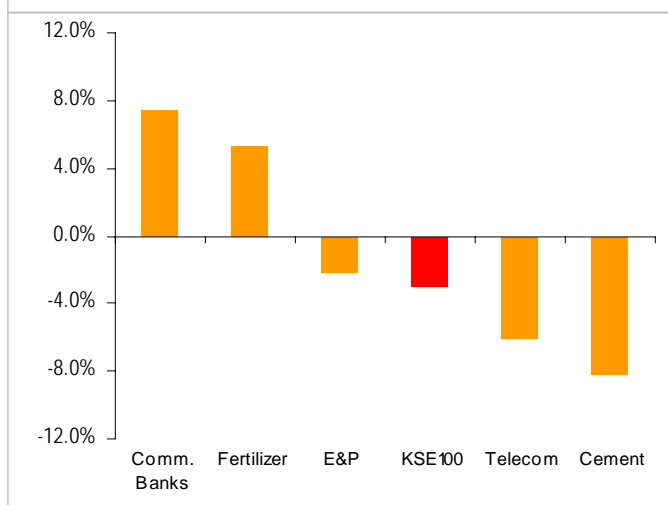


Figure 2: 1Q-FY08 Performance



## ECONOMY UPDATE

### 1. WEEKLY MONETARY DATA RELEASE – for the week ending 6th October, 2007.

According to the recent data released by the SBP, the M2 growth from 1st July 2007 to 6th October 2007 was 1.53% compared to 0.50% over the corresponding period last year. The reason for this surge in M2 growth is the higher NDA of the banking system due to higher government borrowing from the banking system. The higher Government Borrowing more than offset the impact on M2 of a fall in Private Credit Growth.

#### Consequences:

If M2 growth continues at a higher pace at the back of higher government borrowing from the banking system and private credit growth continues to remain subdued, than this can contribute to the possibility of missing on both the inflation and the growth targets.

### 2. KIBOR:

Until the election uncertainty ends, KIBOR is expected to remain range bound between 9.95-10.05%.

### 3. PIB cut off rates: some basic Fundamentals

So far, there are no clear signs of any fall in food inflation and it seems likely that this fiscal year will close with headline inflation exceeding the target (6.5%) by 150bps. Any domestic Oil price increase will only worsen the situation on domestic inflation front. SBP accepts the limitations of the monetary policy on food inflation but in order to check a feeding into the higher headline inflation, it will continue with its tight stance.

Inflation expected to continue to be on the higher side

Existing Tight Monetary Policy Stance to continue

No expectations of significant fall in KIBOR in the near future

Add = Risk Premium for the long term Bonds

= We do not think that making a bid for less than 10.40% for the 10 year PIB makes much of an investment sense.

### 4. BANKING STATISTICS – 1ST HALF, CY 07

#### Key data:

-ADR (Advances to Deposit Ratio) of the banking system has fallen from 66% in Mar-07 to 64% in Jun-07, while IDR (Investments to Deposit Ratio) has increased from 29% to 32% during the same period.

-T-bills have around 75% (66% for CY06) share in the total investments, while PIBs have 16% (24% for CY06) share.

-The shares of Fixed and Current deposits have changed from 31% and 23% in Dec-07 to 30% and 24% in June-07, respectively.

-Working capital requirements by corporate sector and commodity financing have contributed 70% to the total increase in credit of the system during 1HCY07.

-Consumer financing increased its share in total by 75bps from 13.55% to 14.3%.

-NPL to loan ratio (7% in Jun-07 compared to 7.4% in Mar-07)



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