

## Fund Performance Reviews

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## Economic Snapshots

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## UTP, UTP-Income Fund, UTP-Islamic Fund Dividends Announced...

ABAMCO Limited announced the declaration of stock dividends (Bonus) of 20% for UTP 10.25% for UTP-Income Fund and 10% for UTP-Islamic Fund for the financial year ended June 30, 2005.

The stock dividend of 10.25%, i.e. Rs. 51.25, is the highest dividend payout by any Fixed Income Fund for financial year concluded June 30, 2005.

After the appropriation of dividend, the Net Asset Value of the UTP-Income Fund comes to Rs. 509.9134, and the unit holders of UTP-Income Fund received 10.0507 units for every 100 units held by them.

The total net profit of UTP-Income Fund for the year is 129.934 million, which works out to Rs 52.92 per unit.

The Net Asset values of UTP & UTP-Islamic Fund were Rs. 7,035 and Rs. 581.60 on June 30, 2005 respectively after the appropriation of Dividend.

Upon distribution of the stock dividend, the unit holders of the UTP & UTP-Islamic Fund received 14.21 units and 8.597 units of the funds respectively for every 100 units held by them.

The extra units of UTP also incorporated an added return of Rs 124 as on July 11, 2005 that has already accrued to these investors because of the 1.76% (58.49% annualized) appreciation in UTP's NAV occurred during the period June 30, 2005 to July 11, 2005.

The net profitability of UTP for the year is 366.373 million, which works out to Rs 855 per unit. The net profitability of UTP-Islamic Fund for the year is 38.849 million, which works out to Rs 26 per unit.

## NAV Variation

| Fund       | Jun '05 | Jul '05 | MoM Change (%) |
|------------|---------|---------|----------------|
| UTP        | 7,035   | 7,098   | +0.89          |
| UTP - IF   | 509.91  | 513.25  | +0.65          |
| UTP - ISF  | 581.60  | 586.75  | +0.88          |
| UTP - AAAF | 50.06   | 51.36   | +2.59          |
| BBF        | 13.66   | 13.72   | +0.44          |
| ASMF       | 16.48   | 16.42   | -0.36          |
| ACF        | 14.87   | 14.87   | 0.00           |
| AGF        | 32.57   | 32.30   | -0.82          |
| ACoF       | 10.32   | 10.38   | +0.58          |

## Rates of return on savings raised

On Tuesday, July 19, 2005, the government announced 1 to 2.04 per cent increase on rates of return on various instruments of National Savings Scheme (NSS). The investment limit on Pensioners Benefit Account and Bahbood Savings Certificates has also been upwardly revised from Rs2 million to Rs3 million.

The rates of return on Savings Accounts, Special Savings Certificates/Accounts, Regular Income Certificates, Defence Savings Certificates and Pensioners Benefit Account/Bahbood Savings Certificates have been increased from 4pc to 5pc, 6.95pc to 8.60pc, 6.84pc to 8.88pc, 8.15pc to 9.46pc, and 10.08pc to 11.04pc, respectively.

The new rates of return on NSS and the revised investment limit on Pensioners Benefit Account and Bahbood Savings Certificates would be effective from July 1, 2005.

The average return in the past six months on the Pakistan Investment Bonds (PIBs) of 3, 5 and 10 years maturity is considered as yield to work out the profit rate on 3, 5 and 10 years maturity of NSS respectively.

Since June 10, 2004, only one auction of PIBs of 3, 5 & 10 years maturity was made by the State Bank of Pakistan, which also could not be materialized as the offers received in this behalf were finally rejected. To have yield on 3, 5 and 10 years tenor, various options were looked into to bring the profit on NSS in line with the market position.

## National Refinery Privatized...

On July 7, 2005, The Attock Oil Group of Companies signed an agreement with the Privatization Commission of Pakistan to buy 51 per cent strategic stake in National Refinery Ltd (NRL).

Secretary Privatization Tehseen Khan Iqbal and authorized representative of AOGC Shoaib Malik signed the agreement in the presence of Minister for Privatization and Investment Dr Abdul Hafeez Shaikh.

Speaking on the occasion, the minister said that the Privatization Commission has raised a record Rs226 billion in the last one year and seven months.

This shows a ten fold increase in privatization proceeds of the present government through privatization compared to last three years where total proceeds stood at Rs36 billion at a rate of Rs12 billion per year.

Dr Hafeez Shaikh said that the present regime in its nearly five-year tenure has completed 27 transactions in the most transparent manner, gaining international confidence.

He pointed out that not a single employee was retrenched in all these privatized units which proved the fact that privatization was pro-employee.

Referring to NRL transaction, the minister said that this was completed at a critical time when the government's privatization process was needing success stories.

"This also shows the tremendous commitment of Attock Group towards Pakistan. This will give a boost to the privatization process", he said.

Dr Shaikh expressed the hope that the new managers would enhance the quality and value of the assets of the NRL.

## Other Stories...

### Show Cause Notices Issued To Stock Brokers

The Securities and Exchange Commission of Pakistan (SECP) has sent show-cause notices to several members of Karachi Stock Exchange (KSE) as the regulator said it had found several irregularities in the 'buy and sell' and influencing the price movements.

According to a copy of the notice, the stock market regulator said that between March 2 and March 31, 2005, in the shares of OGDC, Pakistan Oilfields, PPL, PSO and PTCL it was observed through the Karachi Automated Trading System of the KSE that members had purchased and sold shares of the same companies in a manner that purchase and sale were made by the same clients.

The notice says that the orders for purchase and sale of aforesaid shares ultimately cancelled each other out and did not result in any change in the beneficial ownership of the shares.

The notice further said that by entering into trading in the aforesaid securities, the brokers had created false and misleading appearance of trading activity in the shares, which influenced the activities in terms of volume and/or share prices, and appeared to have made fictitious quotations.

The report states:

"By engaging in such trading, it appears that the brokers have operated and intended and calculated to operate a fraud or deceit upon the public."

"It appears that trading was done with the intent and for the purpose of inducing, effecting, influencing the sale and purchase of the aforementioned securities".

The SECP, in accordance with the provisions of the Ordinance, is serving show-cause notices, in writing along with documentary proof, for reply within five days from the date of the notice (July 15).

### SECP penalises 168 cos for violation of rules

The Securities and Exchange Commission of Pakistan (SECP) maintained strict vigilance on the corporate sector and penalised 168 companies during June on account of violation of different legal provisions.

The Companies Ordinance, 1984 empowers the Registrars of Companies of the SECP to initiate actions against companies and their management for violations of the law, said SECP source.

The violations observed by the Registrars during the month of June mainly pertained to delay in filing of statutory returns, including late filing of annual returns, Forms A/B, Form 29 indicating the particulars of directors and officers of the company or any change therein, circular for further issue of capital Under Section 86 of the Ordinance, return as to allotments, annual accounts, statements of beneficial ownership of listed securities and special resolutions passed by companies.

The aggregate penalty imposed by the Registrars during the month amounted to Rs434,100. The monitoring and enforcement by the SECP infuse a sense of discipline in the corporate sector and promote compliance with the statutory requirements and transparency and disclosure in the affairs of companies.

## Economic Indicators

| Indicator                    | Position | Updated    |
|------------------------------|----------|------------|
| GDP Growth                   | 8.4%     |            |
| Industrial growth            | 13.4%    |            |
| Agricultural growth          | 2.6%     |            |
| Services sector growth       | 5.2%     |            |
| Fiscal Deficit (% of GDP)    | 3.3%     |            |
| Investment to GDP ratio      | 18.1%    |            |
| Unemployment rate            | 8.3%     |            |
| Per capita income (USD)      | 652.00   |            |
| Average bank lending rate    | 7.6%     | May '05    |
| SBP Discount Rate            | 9.0%     | Apr 12 '05 |
| FX Reserves (USD bn)         | 12.42    | Jun 04 '05 |
| Total external debt (USD bn) | 36.20    |            |
| Total internal debt (PKR bn) | 2,028.40 |            |
| CPI Inflation                | 9.9%     |            |

## Glossary of Investment & Financial Terms

**Credit risk:** the possibility that a bond issuer will default on an obligation, i.e. fail to repay principal and interest in a timely manner.

**Cross-reinvesting:** reinvesting dividends and/or capital gains between mutual funds of the same family.

**Currency futures:** contracts in the futures markets for delivery in a major currency, such as the U.S. dollar, the Japanese yen or the British pound. The buyer of a currency futures contract acquires the right to purchase a particular amount of that currency by a specific date at a fixed exchange rate. These contracts are traded on exchanges throughout the world. Often used as a hedging mechanism to offset currency or interest rate risk.

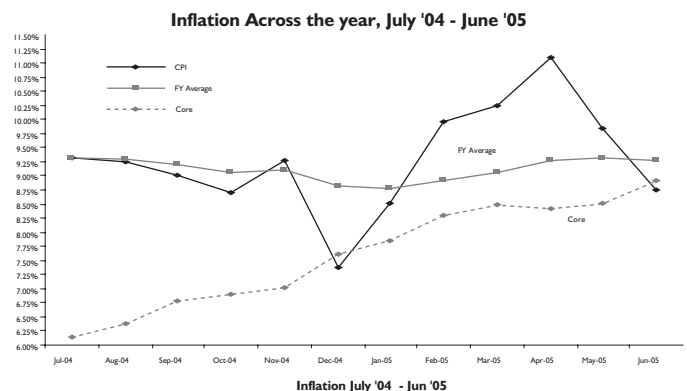
**Custodian of assets:** an agent, bank, trust company or other organization that holds and safeguards the assets of a mutual fund.

**Cyclical stocks:** stocks of companies whose earnings are tied to the business cycle. When economic and business conditions are good, a cyclical company prospers; when there is an economic downturn, the company suffers. Examples of cyclical stocks include housing and automobiles. Stocks of noncyclical industries such as food, insurance and pharmaceuticals are not as directly affected by economic changes.

**Dealer:** an individual or entity that buys and sells securities for its own account. Since most brokerage firms operate both as brokers and as dealers, the term broker-dealer is commonly used.

**Debenture:** unsecured debt backed only by the integrity of the borrower and documented by an agreement called an indenture. This differs from a secured bond, which is backed by specific collateral.

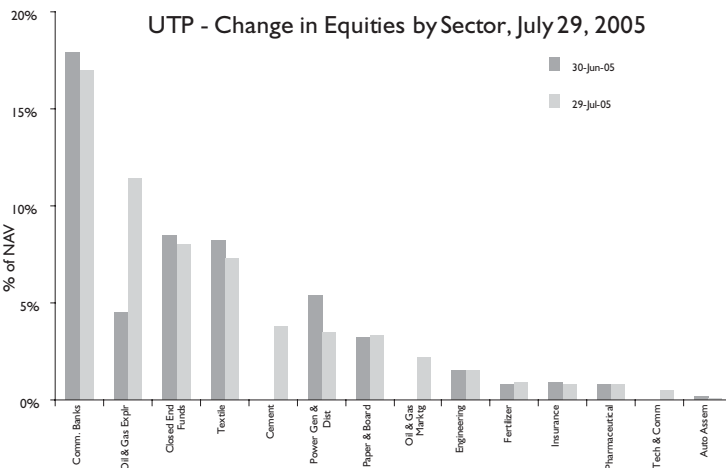
**Debt:** a liability or obligation in the form of bonds, loan notes or mortgages owed to another person or persons and required to be paid by a specified date (maturity). Debt may or may not be secured.



## Unit Trust of Pakistan Performance Review

During July 2005, the NAV per unit of UTP fund appreciated by 0.90% as against the 3.64% decline in the KSE-100. Last month was marked by worries on the issue of share financing which clearly explains the dull volumes at the stock market. While, we cautiously increased our exposure in equities to 61% from 52% on June 30th, our overall stance is unchanged and that is the market is likely to remain in a muddle-through environment for the time being. And provided this continues to follow through, our strategy would be to hold on to our portfolio while staying sidelined in the market. Meanwhile, if the dust settles down, we will target to make some accumulation in quality and yield stocks. Looking beyond the shorter term, we think equity markets will slowly but surely move up as the economy and earnings allow it to happen.

We made few changes in our sector allocation in favor of selective picks in Oil & Gas Exploration, Oil Marketing and Cement sector. Exposure to fixed income market declined on back of capping of badla investment at PKR 12bn.



## UTP-Aggressive Asset Allocation Fund Performance Review

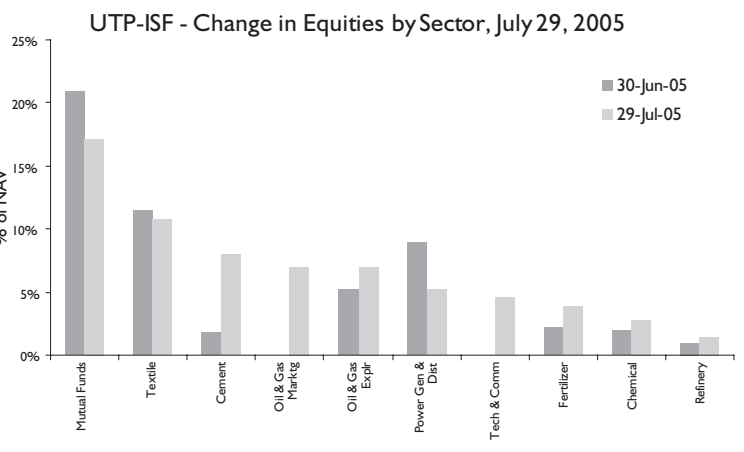
In the month of July 2005, we just started building up our portfolio for the fund, which is reflected by an appreciation of 1.95% during the month, while outperforming the KSE-100 by 559bps. As UTP-AAA offers the flexibility to shift fund allocation to a maximum of 100% in any one type of asset class at any point in time, the investment policy is geared towards providing higher total return than a balanced fund. We believe the stock market is still under a major technical correction and a clear picture of the actual situation cannot be obtained. From experience, we have seen that when the market changes course, conflicting signals emanate and the process of alignment to a new path takes longer when there has been an extended boom. We are witnessing the same situation now. With that in mind, we look toward opportunities in stocks that are marked by positive long-term themes and, likewise, offer strong margin of safety from prevailing price levels.

Our asset allocation as of July 29, 2005 was 38% debt, 34% cash and 28% equities.

## UTP-Islamic Fund Performance Review

The fund increased in value by 0.89% versus the 3.64% fall in the KSE-100 index during the month of July 2005. We reduced exposure in Closed end funds, Power and Textile sector, while at the same time made selective picking in Oil, Cement, Telecom and Fertilizer stocks. We reiterate our earlier stance on the fact that the high global oil prices are here to stay for at least some time and based on that we remain bullish particularly on the upstream oil and gas sector, where cheap valuations would continue to attract shrewd investors. On the whole, the fund's exposure in equities was increased to 83% from the previous 53%.

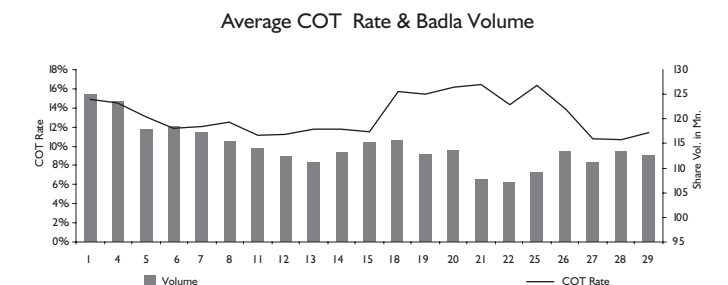
While we are cautiously optimistic on how the market cycle will develop, we recognize the risks and therefore, we aim to make timely adjustments to our asset allocation going forward. If our models suggest a higher degree of caution, we might be forced to make such a change.



## UTP-Income Fund Performance Review

July '05 saw erratic COT volumes (Avg. 114.28 Mln) and rates (13.22%) as the market went through another phase of uncertainty with the COT phase out. We have reduced our overall exposure to COT and replaced it with money market repos, which has resulted in giving a stable return. However, we feel that in the current interest rate scenario, aggressively locking into longer tenors (>3M) is unadvisable, as we will not be able to take advantage of any upward movement in rates (COT or Money Mkt).

Outlook - We expect to maintain a stable single digit return for Aug '05 through active deployment of funds in the money market, ready/future transactions and investment in TFCs.



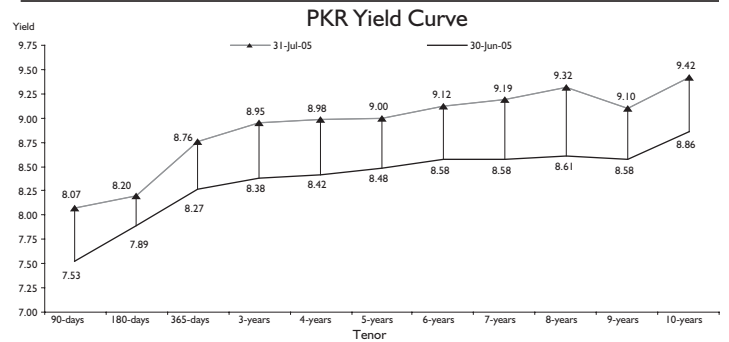
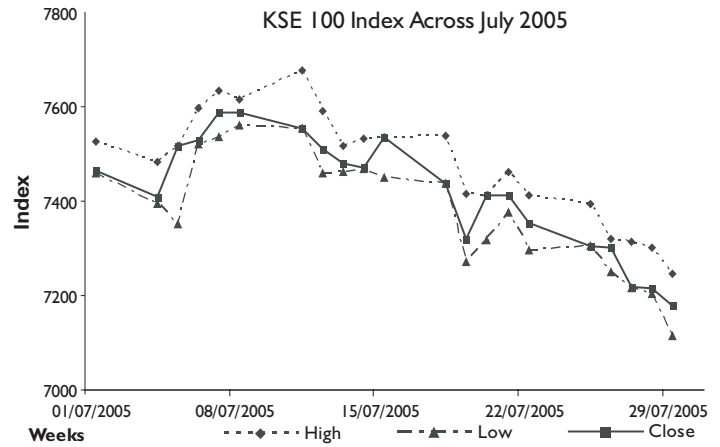
## Financial Markets Review - July 2005

**Equity Market:** The uncertainty and confusion created by the phasing out of COT did not fare well for the market, as the KSE-100 Index nose-dived by 271 points (-3.64%) during July. The tussle between the KSE and the SECP with the KSE trying to fully revive badla financing only aggravated the already grave situation. Even the strong corporate results and sound macroeconomic indicators confirming the fundamental strength of the economy could not create any significant positive impact on the stock market. The increasing oil & gas prices should have brought some positive movement in the Oil & Gas sector, but falling PPL prices, after its exploration site in Pasni was declared as a dry well, further damaged market sentiment. Average daily volumes plummeted by a hefty 44% to 143mn in comparison to the previous month, as investors preferred to stay on the sidelines avoiding new positions. Volatility remained high as the market witnessed short-lived rumor based rallies while remaining range-bound in 7200-7600 levels. PTC, OGDC and FFBL stood as the volume leaders with average daily turnover of 28mn, 23mn and 13mn shares respectively, while the volumes in these three stocks constituted almost 45% of the total volumes at the KSE.

**Money Market:** Headline inflation or CPI as it is known tapered off considerably in June '05 to 8.74% YoY (May '05 9.84% YoY) due to increased market interventions by the SBP to suck up excess liquidity, effects of the discount rate hike, and duty-free import of food essentials now coming into effect. However, a cause for concern is the Core inflation (non-food & non-oil) which was 8.91% (May '05 8.51%). SBP conducted the first T-bill auctions for the FY'05-'06 which saw banks continuing to switch their maturity profiles from 3months to 6 & 12 months in anticipation of stable interest rates in the coming months. Cut-off yields were up marginally to 7.6946%, 7.9869% and 8.6959% (7.5147%, 7.9869% & 8.4477%) for 3, 6 & 12 M tenors respectively. The SBP also published its Monetary Policy Statement for the first half in Jul '05, and as expected a "hawkish" tone regarding direction of interest rates was used. 10Y benchmark bond yields remained subdued at levels of 9.15% - 9.25% with little interest shown from both banks and institutions. This is due to the fact that the differential between the 1Y T-bill and 10Y PIB is less than 0.50%.

**Outlook -** With YoY core inflation increasing while headline CPI tapering off, international oil prices again rallied above US\$ 65 a barrel on supply concerns, we forecast inflation to be 9.00% for FY'06, with a further increase of 100bps in SBP discount rate now evident.

**Foreign Exchange Market:** The pressure on the rupee in the currency markets slightly eased during July on account of regular inflow of export proceeds. The currency traded within a range of 59.58 - 59.66, with an average of 59.63/USD as against an average of 59.68/USD during June. The rupee is expected to remain steady in the near-term on the back of balanced import and export exchanges.



**Future Outlook:** Going forward, volumes are expected to remain low until a concrete decision on the badla phase out process is reached and financial institutions build the infrastructure to support margin financing. The implementation of the recommendations of the Tarin Committee may implicate some positive movement in the index through its proposal of increasing the badla limit to inject liquidity into the market. Amidst all the uncertainty, although strong corporate results may not be able to create significant rallies in the KSE-100 index, they are expected to have some positive impact on related scrips. However, profit taking by speculators following the 'sell on strength' strategy may offset all such gains. In light of these factors, the volatility in the stock market is expected to continue over the next few weeks, as the regulators are expected to take important decisions regarding the liquidity situation in a fundamentally strong market. Rising oil & gas and urea prices, along with increasing world demand for textile products will tend to benefit the sector stocks. In addition, news relating to the privatization of NIT is expected to positively impact the banking sector, which is already demonstrating excellent improvement in earnings. Lastly, further privatization related rallies in the stock market may be led by market leaders such as OGDC, PPL and PSO.



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