



Revised Fund Rating Criteria...

With the increasing number available mutual funds in the market, the need arises to categorise them on a comparative basis against each other rather than on absolute terms. This need was realized by The Pakistan Credit Rating Agency (PACRA) which has recently proposed changed its mutual fund rating criteria.

PACRA has defined the following fund categories:

- **Income Fund:** a fund that primarily invests in debt securities including money market instruments.
- **Equity Fund:** a fund that primarily invests in equity securities.
- **Balanced Fund:** a fund that carries a reasonable mix of equity and debt securities.
- **Islamic Fund:** a fund that invests in Shariah compliant instruments only.

Under the new rating standards, the absolute and risk adjusted performance will both be considered.

Absolute return is defined as the appreciation or depreciation in a funds net asset value over the period of time after including any dividend payouts. In realistic terms, this is what the investor is taking home. The risk adjusted return method discounts the returns for the risk the fund is exposed to. For example, the absolute return of two different funds may be equal, but one may have a higher risk adjusted return. This would mean that the fund is exposed to lower risk as compared to its counterpart and will be likely to be less prone to volatility.

Total return for the fund is determined for each quarter by calculating the change in NAV over the period, after accounting for payouts and capital adjustment at a discount to NAV (only in the case of closed end funds).

The weighted average yield on 3-month treasury bills, since they are considered risk free, is deducted from the total return of the fund to yield the total excess return for the quarter.

In order to determine the risk adjusted returns, PACRA uses the Sharpe Ratio, which is the ratio of excess return over the risk free returns, divided by the standard deviation, which is calculated either over the past four or twelve quarters.

Standard deviation is a statistical measure of the historical volatility of a mutual fund or portfolio, usually computed using 36 monthly returns. More generally, a measure of the extent to which numbers are spread around their average.

Both scores, the risk adjusted return and the total excess return are then weighted equally to arrive at an overall quantitative score, after which the fund is assigned a star rating according to the following table:

<i>Number of Stars</i>	<i>Performance standard</i>	<i>Scoring Range</i>
5	Superior Performance	Top 10%
4	Good Performance	Next 35%
3	Average Performance	Next 35%
2	Weak Performance	Bottom 20%
1	Poor Performance	Negative scores

The star rating is a strictly quantitative measure and funds are rated according to their actual performance over the previous periods. The exercise measures both the risk and return and then rates funds accordingly in their respective categories.

Market Reviews...

Foreign Exchange

The consistently rising oil prices continued to put pressure on the Pakistani Rupee in the currency markets during September. Nevertheless, the pressure has been well fought off by regular inflows of exports proceeds. The currency traded within a range of 59.68-59.89, with an average of 59.78/USD as against an average of 59.68/USD during August. We expect the rupee to remain largely stable in the following weeks as the rising oil prices are balanced out by export revenues.

Equity

The market progressed on a steady uptrend during September with stock prices reaching new highs after the March crisis. Appreciating by 429 points or 5.5% during the month, the KSE-100 index breached the psychological barrier of 8,000 points to close at 8,226 points, while the ABAMCO 30 index moved 469.94 points or 8.38% in the positive zone. This is also the highest level reached by the KSE-100 index after March 2005; but panic alarms need not go off!

The current market rally bears significant fundamental differences from the artificial appreciation preceding the March crash. While the earlier rally had mainly been led by hype in three major scrips, namely OGDC, PTC and PPL, the current rally is being witnessed across the board, backed by strong fundamentals, healthy macroeconomic indicators and sound corporate results. Another notable difference from the pre-crash scenario lies in that rather than steeply peaking, the market has grown gradually, punctuated by acceptable corrections and profit-taking. The banking, fertilizer and oil & gas sectors have continued to perform brilliantly and are steadily reaching their fair valuations.

With the CFS capped at PkR 25bn, volumes during September were healthy and stable. Average daily volumes rose by a notable 58% over the previous month to 353mn. PTC, DGKC and NBP stood as the volume leaders with average daily turnover of 40mn, 38mn and 35mn shares respectively, together constituting approximately 32% of the total volumes at the KSE.

Money Market

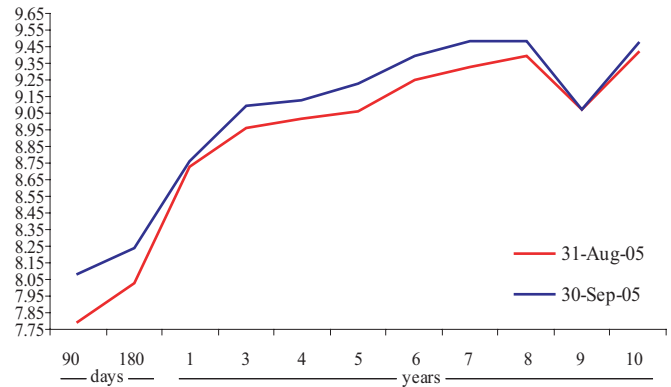
CPI or Inflation came down in Aug '05 to 8.41% YoY (Jul '05 8.99% YoY) mainly due to higher base effect over last year, and the duty-free import of food items resulting in a down turn. However, as mentioned in our July Newsletter regarding Core Inflation, we reiterate that in order for inflation to come down, Core Inflation (non-food, non-oil) needs to be controlled. Core inflation rose once again to 9.20% (Jul: 8.86%) which has a direct result in transport and fuel costs passed on to consumers by the government.

On the money-market front, the SBP managed to maintain previous cut-off yields (given below). Almost negligible activity was seen in the benchmark 10-Year bond and yields remained subdued at levels of 9.07% - 9.15%.

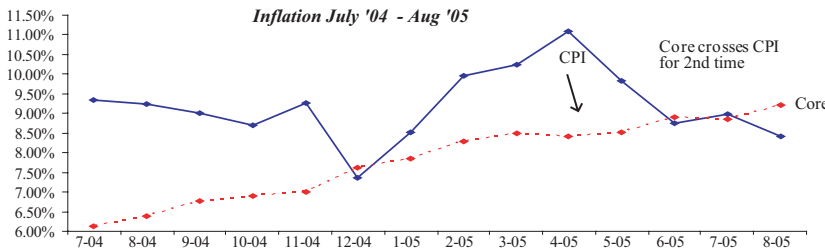
T-Bill Cut-off Yields

Tenor	September	August
03 Months	8.10%	7.91%
06 Months	Unchanged	8.13%
12 Months	Unchanged	8.79%

PKR Yield Curve



Inflation July '04 - Aug '05



Future Outlook

As major banking and oil & gas scrips reach their fair values, we expect the market to remain largely flat over the next few weeks. Up-thrusts brought about by sudden hypes might lead the market into the overbought region, to be immediately followed by corrections and profit taking. As seen during the previous month, we expect secondary stocks, especially from the banking sector, to attract investor interest. Although on a fundamental basis, the turnover is expected to remain stable, volumes have had a historical tendency to remain dull during Ramadan. In all, we expect to see most of the market movement upon news and rumors. Consistently rising fuel prices are expected to bode well for the Oil & Gas sector, while finalization of the PTCL deal with Etisalat and further developments on the privatization front, especially with regard to OGDC, PPL and PSO are also expected to significantly impact the market sentiment.

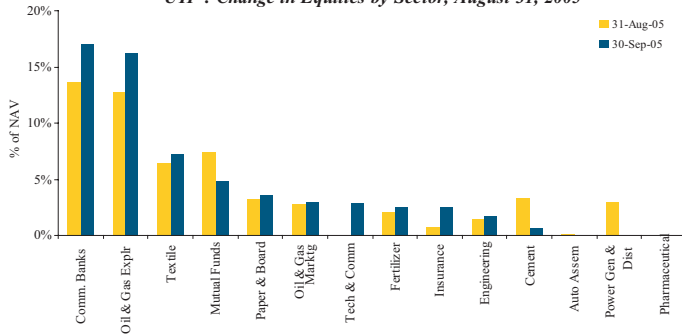
On the money market front, supply concerns continue to fuel the threat of rising international oil prices, which are currently already above US\$ 64 a barrel. We maintain our inflation forecast to be 9.00% for FY'06, with a further increase of 100bps in SBP discount rate likely before December '05.

Fund Performance Reviews...

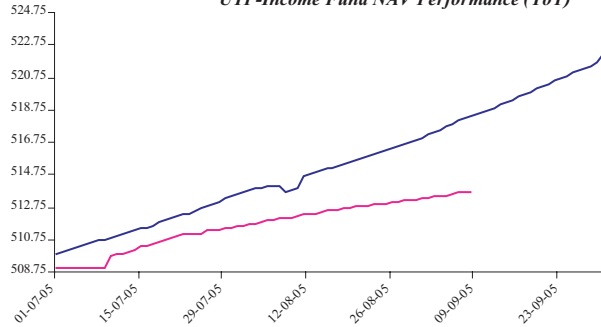
During September 2005, UTP reasonably outperformed the KSE-100 index, with the NAV appreciating by 6.6% as compared to a 5.5% increment in the benchmark index. As the market swayed along the strong bullish trend, we built strong positions in stocks offering substantial upside potential while liquidating those that had become relatively overpriced.

In line with the positive market sentiments, we remained well-invested in equities, which formed 62.4% of net assets. In comparison, debt securities made up a mere 4.3% of the net assets. We believe the appreciation in market has thoroughly been based on fundamentals and, therefore, maintain our optimistic stance. Banking and Oil & Gas Exploration remain our most liked sectors. Consequently, we have increased our exposure in these sectors. In order to maximize the returns to our investors, we continue to look for timely opportunities to invest in fundamentally strong stocks with significant room for appreciation.

UTP : Change in Equities by Sector, August 31, 2005



UTP-Income Fund NAV Performance (YoY)



UTP-Income Fund

Sept '05 witnessed a bull-run on the KSE-100 Index gaining over 420 points, which led to increased CFS volumes. The fund has increased exposure in CFS, thereby taking advantage of the high yields. UTP-Income Fund fund has also increased its exposure to spread transactions in those stocks paying a higher dividend thereby, earning a higher spread.

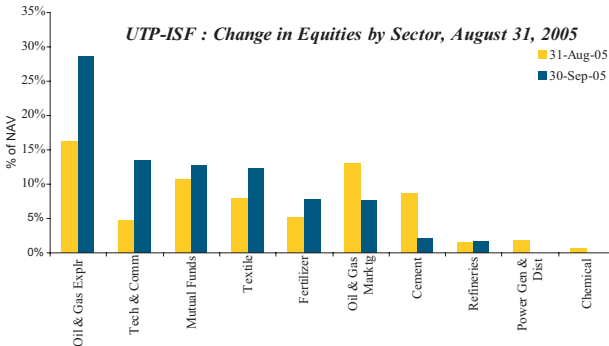
Given the current bull-run and a few corporate results awaited, we believe that yields on spread transactions will increase given the dividend components and increased market volumes. However, we continue to monitor the risk. We expect a double digit return for Oct '05.

UTP-Islamic Fund

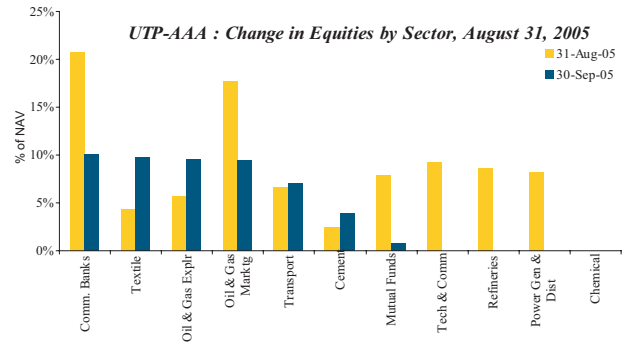
UTP-ISF also comfortably outperformed the benchmark index as it showed an appreciation in NAV of 6.9% during the month - 1.4% higher than the index growth. All major sectors of the economy have posted impressive results, and volumes have stabilized at the higher end.

We have significantly enhanced our holdings in the Oil & Gas Exploration and Technology & Communication sectors, which remain our top picks for generation of Shariah compliant returns. With supporting macroeconomic indicators we have also increased our exposure in the Textile and Fertilizer sectors in view of the rising worldwide demand for textile products and agri-based high local requirement for urea.

UTP-ISF : Change in Equities by Sector, August 31, 2005



UTP-AAA : Change in Equities by Sector, August 31, 2005



UTP-Aggressive Asset Allocation Fund

The AAA-Fund, our star performer, has by far been the industry leader when it comes to performance. The fund's NAV appreciated by an exceptional 21.3% during September, simply outshining the gains posted by other funds and the market.

While liquidating our positions in a number of sectors such as Technology & Communication, Refineries and Power Generation, we still remained 88.2% invested in equities. By diversifying our holdings more widely across many fundamentally strong sectors, our exposure was evened out among Commercial Banks, Textile, Oil & Gas Exploration and Oil & Gas Marketing. In addition, we also maintained a reasonable interest in the Transport and Cement sectors. We expect market growth to come from an across the board improvement in scrip prices. Nevertheless, we remain cautious on scrips exceeding their fair values and watch-out for opportunities of buying on dips.

Investor Protection...

Regulators Role An industry in any stage of exposure and experience, needs to be regulated for fair and efficient management, both from an intra industry perspective and regarding its dealings with the public.

The mutual fund industry in Pakistan is regulated by the Securities & Exchange Commission of Pakistan (SECP) which succeeded the Corporate Law Authority in its capacity as the regulatory body for businesses in 1999.

The SECP launched the Non-Banking Finance Companies (Establishment & Regulation) Rules in 2003, according to which, all mutual funds in Pakistan are governed.

The Rules are not only aimed at efficient management of the fund, but are very firm when it comes to protecting the interests of investors.

According to Rule 65(b) of the NBFC Rules, the asset management company is accountable to the trustee for any loss in the value of the assets of the fund, where it is clear that such a loss is due to the negligence, recklessness, omission or a willful act on the part of the asset management company.

Rule 72 restricts short sales of any kind. A short sale is defined as a sale that takes place without any ownership of the scrips. In effect, a short sale transaction is a sale, followed by a purchase, rather than the converse. This sort of a transaction imposes a liability upon the party entering into a short sale to follow it up with buying the same shares at the same volume, what ever the price, which could lead to an unaccounted liability.

In the same context, Rule 73 restricts funds from lending or guaranteeing a lending, since doing so could make it directly or contingently liable for obliging a commitment due to the indebtedness of another person. Mutual funds are also not allowed to borrow, except for meeting redemption requests. The borrowing may not exceed 15% of the total net assets of the fund, and is repayable within a maximum of 90 days.

The SECP also requires all funds to maintained in the custody of a trustee, which can be either a scheduled bank operating in Pakistan with a minimum investment grade rating and has been in operation for atleast five years or a trust company which is a subsidiary of a scheduled bank or a central depository company approved by the SECP.

The trustee is required to take all assets of the fund in its custody and hold it in trust for the unit holders in accordance with the law and the provisions of the constitutive documents of the fund.

The trustee also ensures that all transactions in units effected by a fund are in accordance with the provisions of the constitutive documents of the fund. The trustee issues a report, much like the auditors report, which conveys the trustees opinion regarding the management of the fund, whether it has been managed in all material respects in accordance with the provisions of the constitutive documents. If the management company has not managed the fund appropriately, the trustee specifies the extent to which there has been non-compliance and the steps taken by the trustee in respect of such non compliance. This report is sent to all unit holders of the fund. ABAMCO holds itself to yet higher standards by using and independent third party as its Transfer Agent. The Transfer Agent keeps the records of all unit holders, their dividend, their profits, their transactions etc. and ensures integrity of the client's account information.

The SECP is very active in other areas of protecting investor interest in other investment arenas as well. This includes trading at the Stock exchanges and at other investment modes available to the people.

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