June 06 edition

# Investor

The ABAMCO Newsletter

## LAUNCH OF UTP-A30+ FUND

Exactly one year after smooth running of Pakistan's first free float based index ABAMCO 30, ABAMCO Limited launched UTP A30+ Fund with a successful Initial Public Offering (IPO) on the 29th, 30th and 31st of May 2006.

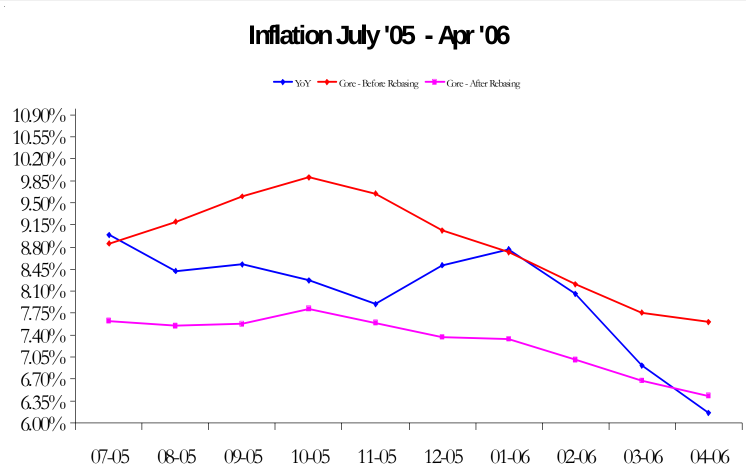
UTP A30+ Fund is a perpetual, open-end fund divided into Units having a par value of PKR 50 (Rupees Fifty). It started with a seed capital of PKR 100 mn (Rupees One Hundred Million). We received 400 applications contributing additional PKR 89 mn (Rupees Eighty Nine Million) to the seed capital, raising the fund's total size to PKR 189 mn (Rupees One Hundred and Eighty Nine Million).

UTP A30+ is designed to mirror the ABAMCO 30 Index. The fund will invest in all of the stocks comprising the ABAMCO 30 Index in proportion to their weightage in the index, thus, the returns will be in sync with the ABAMCO 30 Index after transaction and other cost adjustments. The strategy of investing in the same stocks as the index, thereby passively managing the fund would result in lower transaction expenses yielding better returns to the investors. Whilst the fund will be invested in common stocks to take medium to long term positions in the market, investment in liquid assets will be minimal to adequately meet estimated future redemptions.

The fund is the first of its kind in the open end fund industry of the country and is expected to serve the needs of investors and fund managers wishing to take a view on our whole market instead of picking individual stocks. It is indeed worth mentioning that KSE has been one of the best performing stock markets of the world for the past couple of years, however, the returns from ABAMCO 30 have even outperformed KSE-100 returns by 7.39% since its launch on June 1, 2005.

## FINANCIAL MARKETS REVIEW

**Fixed Income & Money Market** – Consumer Price Index (CPI) or Inflation declined for the second consecutive month in Apr 06 to 6.16% YoY (Mar 06 6.91% YoY) mainly due to higher base impact and slight decline in Sensitivie Price Index (SPI) prices. Core inflation also showed signs of decline from 6.67% to 6.43%.




We maintain our inflation forecast of 8.15% for FY06, with a likelihood of short term interest rates tapering off by end-4QCY 06 for the near term.

On money-market front, SBP again maintained the cutoff yields on all tenors; however, there was very little subscription as the banks fascination with T-Bills is now dying out. Total participation was PKR 4,600 M against accepted amount of PKR 1,900 M.

| Treasury Bills Cut-off Yield | | |
|---|---|---|
| Tenor | May | April |
| 3 M | Unchanged | 8.10% |
| 6 M | Unchanged | 8.29% |
| 12 M | Unchanged | 8.79% |

After almost 2 years, the SBP decided to conduct a PIB auction with revised coupon rates. During the initial "when issue" period, there was little or no interest from institutions with primary dealers also remaining on the sidelines. However, the PIB auction received participation of over PKR 16,000M against a target of PKR 10,000M. SBP accepted the target amount by increasing the cutoff yields much higher than the coupons. However, we believe this does not signal an upward interest rate movement, since this auction served two motives, one, to give a benchmark to the market, and two, for upward adjustment of the NSS rates which are seeing steady outflows over the last two years.

| PIB Coupons | | | PIB Cut-off Yields | |
|---|---|---|---|---|
| **Tenor** | **Revised** | **Previous** | **Current** | **Previous** |
| 3Y | 9.10% | 6.00% | 9.45% | 4.35% |
| 5Y | 9.30% | 7.00% | 9.67% | 5.35% |
| 10Y | 9.60% | 8.00% | 9.87% | 7.37% |

**Foreign Exchange Market:** The rupee kept on depreciating in the volatile currency market for yet another month. The surging oil prices along with higher than targeted import bill in other commodities offset the privatization proceeds, bond receipts and export market revenues to tilt the balance of current account on the deficit side. PkR traded within a range of 59.94 – 60.24, with an average of 60.09/USD as against an average of 60.03/USD for April. Rupee is expected to devalue further in the near-term on the back of trade imbalance.

**Equity Market:** The market failed to find any resistance after being range bound for last couple of months. The perplexed situation was created by exogenous factors like political uncertainties, unrest on the northern side, outflow of foreign portfolio investment owing to general concerns regarding the risky nature of emerging markets and endogenous factors like anti-market budget rumors staged the dramatic fall of 14% or 1,542 points to 9,800 level of KSE-100 index. However, none of the exogenous factors fully explain the prolonged bearish spell.

Average daily volumes plummeted by a hefty 32% to 230 mn on MoM basis, as investors preferred to stay on the sidelines avoiding new positions. OGDC, NBP, DGKC, PPL and PTC stood as the volume leaders with average daily turnover of 36mn, 28mn, 22mn, 15mn and 13mn shares respectively, while the volumes in these stocks constituted almost 50% of the total volumes at the KSE.

In our view, FY07 budget will be a pro-market budget. It will have positive impact on financial sector; the rationalization of corporate tax rate, which will reduce the tax rate of banks from 38% to 35% which though minimal, will bode well for the bottom line; continuation of exemption for capital gains tax on equity shares will benefit insurance companies the most; the higher allocation to PSDP (Public Sector development Program) in addition to the Dam construction plans will benefit the cement sector, although, the positive impact is expected to be partially offset by the zero-rated import duty with freight subsidy on cement import in the short run; the GST (General Sales Tax), is expected to reduce by half, will bode well for FMCGs; accelerating growth in agriculture sector along with enhancement in credit to the farmers is forecasted to have a positive impact on fertilizer sector. The oil & gas sector would not be much affected by the budget, however, change in the oil price regime will benefit the sector in short run and active exploration activities will reap fruits in the long run.

Active privatization program will not only assist in retiring the government debt and financing the development programs but is also expected to make the institutions more efficient. GoP has also been able to convince the World Bank to increase its total development related lending to Pakistan to USD 6.5bn for the four years to 2009 from the previous USD 2.7bn. 1bn of this would be used for earthquake rebuilding efforts and the rest in infrastructure related projects. In addition, 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.

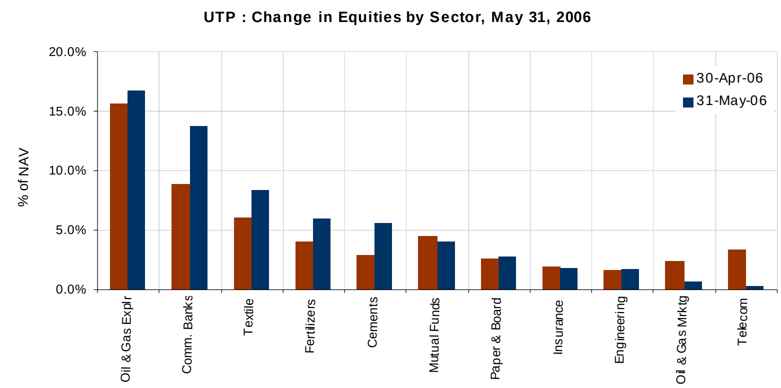
# FUND MANAGER'S REPORTS

## UTP

During May 2006, the fund's NAV declined by 9.95% as against a decrease of 13.59% in the KSE-100. Looking at the return's profile of UTP during the eleven months of the current fiscal i.e. June 30, 2005 to May 31, 2006, the fund's total return comes to 32.85% which is even higher than the rise in the KSE-100 of 31.55% during the same period. The month of May was merely indicative of a volatility that has become increasingly familiar as hundred-point single-day moves, often reversing similar changes the day before, have become commonplace in the market. We believe that greater volatility matters for several reasons. Firstly, it makes investing in shares a riskier business and even more importantly it creates doubts in the minds of investors. Given that, we expect a technically strong pullback, or a range bound behavior. Therefore, our strategy would again be to stay invested in fundamentally attractive and low beta stocks.

During the month, we reduced our positions in Telecom, Oil & Gas Downstream, Closed end Funds and Insurance, while we gradually increased our holdings in selective picks from the Banking, Cement, Textiles, and Fertilizer sector. On an overall basis, we have builtup our exposure level in equities to around 61% from the previous month's 54%, whereas, we have almost maintained our exposure in fixed income to 22% from 21% during the previous month.

| | 30-Apr-06 | 31-May-06 |
|---|---|---|
| Oil & Gas Explr | 15.7% | 16.8% |
| Comm. Banks | 8.8% | 13.8% |
| Textile | 6.0% | 8.4% |
| Fertilizers | 4.1% | 5.9% |
| Cements | 2.9% | 5.6% |
| Mutual Funds | 4.5% | 4.0% |
| Paper & Board | 2.6% | 2.8% |
| Insurance | 2.0% | 1.8% |
| Engineering | 1.6% | 1.8% |
| Oil & Gas Mrktg | 2.4% | 0.7% |
| Telecom | 3.4% | 0.3% |

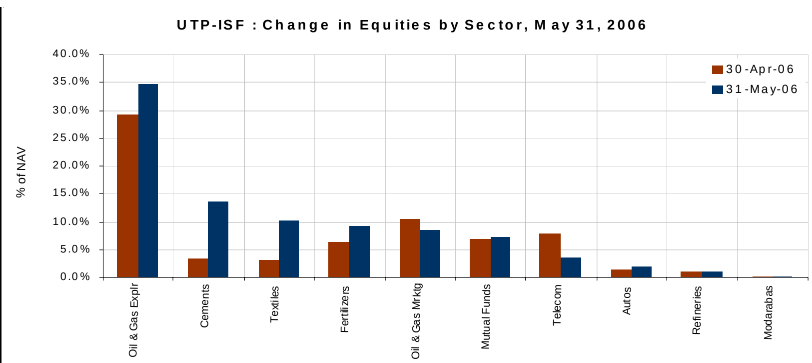



## UTP-ISF

The NAV of the fund dropped by 12.62%, as compared to a decline of 13.59% in the KSE-100 during the month. Despite a relatively small presence of foreign institutional funds in our markets, the heavy fall in May at the KSE looks in line with what has been happening elsewhere in the emerging markets. We believe this coincidence with the rest of the nearby markets to be an important factor, as we have often highlighted on the importance of international economics and its impact on domestic investment activities in our previous issues. It was certainly one of the major contributing factors behind the recent volatile patterns in the stock market. However, we as fund managers did not ignore cheap valuations during the month, which at times become quite scarce.

During the month, we trimmed our positions in Telecom and Oil & Gas Downstream, whereas we built up holdings in Cements, Textiles, Oil & Gas Upstream and Fertilizers. On the whole, we increased our exposure in equities to 90% from 70% as on April 28. The fund's return for FY 2006 (June 30, 2005 to May 2006) comes to 33.95%, showing an out-performance over the KSE-100's return of 31.55% over the same period.

| | 30-Apr-06 | 31-May-06 |
|---|---|---|
| Oil & Gas Explr | 29.1% | 34.7% |
| Cements | 3.3% | 13.7% |
| Textiles | 3.2% | 10.2% |
| Fertilizers | 6.4% | 9.1% |
| Oil & Gas Mrktg | 10.5% | 8.5% |
| Mutual Funds | 7.0% | 7.3% |
| Telecom | 7.7% | 3.5% |
| Autos | 1.4% | 1.9% |
| Refineries | 1.1% | 1.1% |
| Modarabas | 0.1% | 0.1% |

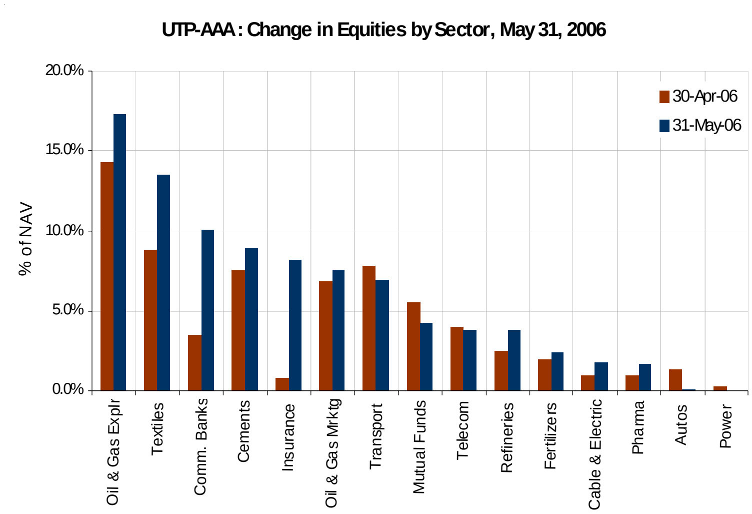


## UTP-AAA

In a backdrop of very challenging market conditions, the fund's NAV recorded a decline of 17.32% as against a decline of 13.59% in KSE-100 in May. If we study the volume patterns in the market, these have certainly squeezed. During May, average daily turnover was in fact lowest in last nine months. Interestingly, these patterns are part of the overall general trend at the local markets. Volumes normally contract during the end of the fiscal cycle. Generally, a post Bull Run period and a Pre-budget session along with some pending regulatory issues, in addition to the closing of the full-year accounts characterize this period of low volumes. Simply speaking, this also suggests that one has more uncertainties to handle in the immediate term with a lot of contradictory news on various issues. Since news more often moves prices, these eventually feed into volatile share prices. We expect the market to remain slightly volatile based on the reasons discussed above. In light of this, we plan to continue to look out for valuation based buying while also seeking to exit from those investments that reach our target values.

During the month, we marginally reduced our holdings in Closed end Funds and Autos while we accumulated some selective picks in the Banking, Oil & Gas Upstream, Textiles, and Insurance. All in all, our exposure in equities stood at 91%, from last month's 67%. The fund's NAV appreciation since June 30, 2005 to May 31, 2006 stands at 69.37%.

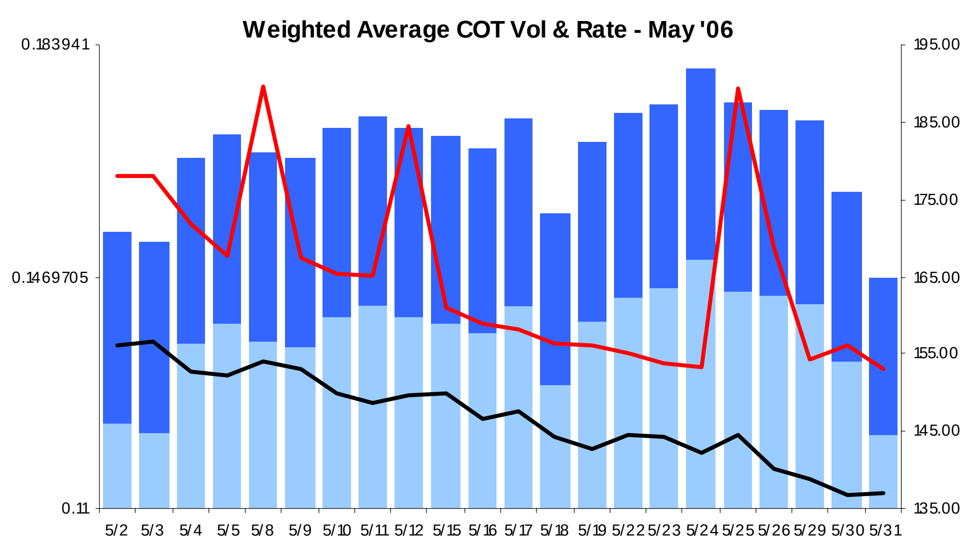
| | 30-Apr-06 | 31-May-06 |
|---|---|---|
| Oil & Gas Explr | 14.3% | 17.3% |
| Textiles | 8.8% | 13.5% |
| Comm. Banks | 3.4% | 10.1% |
| Cements | 7.5% | 8.9% |
| Insurance | 0.8% | 8.2% |
| Oil & Gas Mrktg | 6.8% | 7.5% |
| Transport | 7.9% | 6.9% |
| Mutual Funds | 5.5% | 4.3% |
| Telecom | 4.0% | 3.8% |
| Refineries | 2.5% | 3.8% |
| Fertilizers | 1.9% | 2.4% |
| Cable & Electric | 1.0% | 1.8% |
| Pharma | 1.0% | 1.7% |
| Autos | 1.3% | 0.1% |
| Power | 0.3% | 0.0% |




## UTP-IF

The KSE-100 Index suffered one of the greatest falls shedding a further 1,541 points since Apr '06 to close at a level of 9,800.69. Weighted average CFS rates dropped drastically from 17.59% to 14.77%. Money market interest rates remained in the upper region of 8.25% - 8.90% throughout May '06. However, clean money/ TDRs demand fell by banks as liquidity eased in the market.

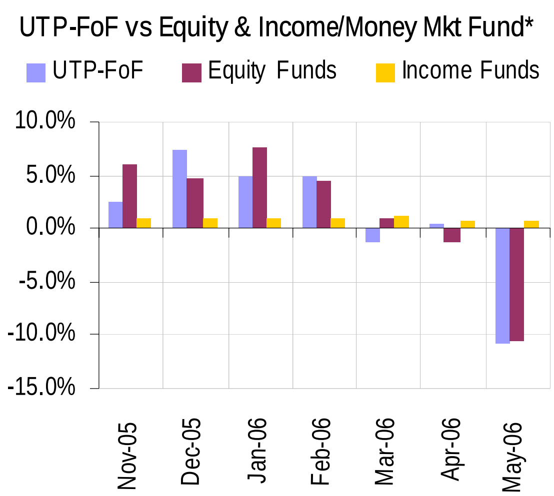
Given the current liquidity scenario, we do not expect rates to increase in any markets to pre-May '06 levels. As for the fund, we expect a stable return in Jun '06.



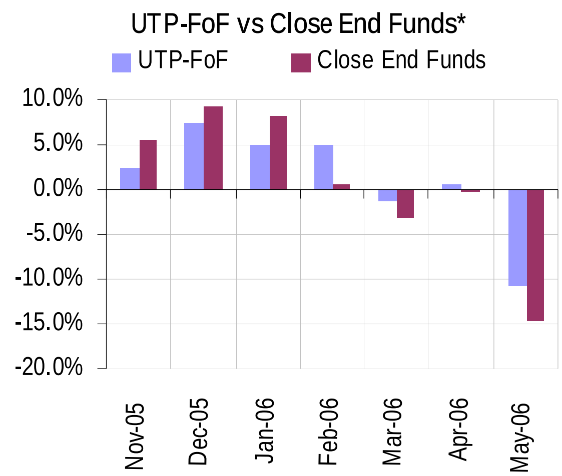
## UTP-FOF

During May 2006, the stock market recorded a significant correction, which had, by and large, started during the second half of April, 2006 after the KSE100 index touched its historical high of 12273.77 points. Just like the customary market adjustments, this correction was also marked by lower market volumes, large bid-ask spreads and pressure-selling across the front by market participants. From May 01 to May 31, KSE100 index lost 1771.89 points (15.31 percent) while the average index volumes reduced by more than half of their previous 6 months average (232m Vs. 431m). However, since there was no major detrimental news from either the economic or the political front, it was generally believed that the correction was a technical adjustment rather than a drastic reduction of market prices due to renewed fundamental valuations. This fact kept most of the fund managers from clogging the market with excessive supply.

The market downfall also impacted UTP-Fund of Funds portfolio holdings. The fund's NAV reduced from Rs. 60.68 to Rs. 54.55, representing a 10.10 percent reduction during the month. However, the fund did not attempt a premature exit from the market, and there were no major portfolio adjustments during the month except for liquidating investments needed to meet occasional redemption requests. Since most of the open end and closed end funds are expected to announce their yearly dividends, it would not have been prudent at this stage to liquidate key portfolio holdings under temporary market pressures. On May 31, 2006 UTP-Fund of Funds was 98.5 percent invested.




*NAV change




* Price change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