Fund Managers' Report

October 2007

Managed by:

KASB FUNDS

Rated **AM3+** by PACRA

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KASB Liquid Fund

Investment Objective

The Fund seeks to maximise current income, consistent with low levels of risk and high liquidity.

Inception Date

May 9, 2006

Type of Fund

Open-end money market

Benchmark

KIBOR 1 month

Fund Size

PKR 9,181 million

Current NAV

PKR 103.67 (31-10-07)

Load Structure

Front-end : Nil
Back-end : Nil
Back-end (contingent) : 0.50% (if redeemed within 15 days)

Performance Return (p.a. basis)

	KLF	KIBOR 1 m
Since Inception	10.67%	9.51%
1 year	10.52%	9.59%
6 month	9.47%	9.50%
3 month	9.84%	9.64%
1 month	9.27%	9.80%

Indicators (since inception)

Sharpe Ratio : 0.25588
Standard Deviation : 0.0169%

Duration of Portfolio

2.19 months (31-10-07)

Market Performance

Inflationary concerns remained high throughout the month as the prices of all essential food items registered a rise in the month of Ramadan. Furthermore, as the market witnessed heavy outflows on the back of higher consumer spending before Eid and steady withdrawal of funds by institutions and individuals, overnight market remained fairly tight. Unlike previous months SBP did not feel the need to mop up any liquidity through OMOs as the market rates remained high. The State Bank actually had to inject money into the system for the first time in over a year through OMO's for four days. However, this was just to accommodate market participants on a temporary basis.

There was no spill over effects of these tighter rates on the longer end of the curve, as rates on placements and deposits continued on their march downwards. 1M KIBOR rate improved significantly to register a monthly average close to that of 3M KIBOR. Rates on 6M KIBOR as expected slipped a little further on the back of continued liquidity still present in the market.

Two T-Bill auctions and two PIB auctions were held this month. Breaking the pattern, participation was finally seen in the 6 month T-Bill in the last auction. The rates remained unchanged on both the 6 month and 12 month paper while no participation was witnessed in the 3 month tenor. Healthy participation was witnessed in PIB auctions held during the month. Major interest was seen in 10 yr tenor where a total of PKR 11 bln was picked up in two auctions. Yields remained volatile but eventually settled close to old cut-off yields.

CFS Review

The stock market closed on a positive note up by 7.25% MoM basis. CFS volumes also increased to an average daily volume of PKR613 million from PKR572 million last month. Rates however remained on the lower side

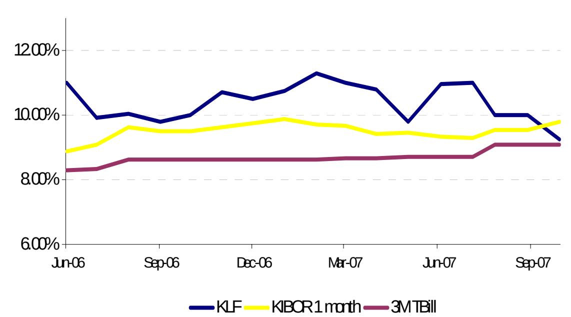
Fund Performance

As the yields on money market placements, TFCs and CFS came further down; the fund registered a return of 9.27% for the month. The fund size continued to grow on the back of superior risk-adjusted returns as the fund closed the month over PKR 9 billion in AUM. As excess system liquidity continued to impediment better returns, the fund continued to increase exposure in new TFCs coming into the market to achieve better yields.

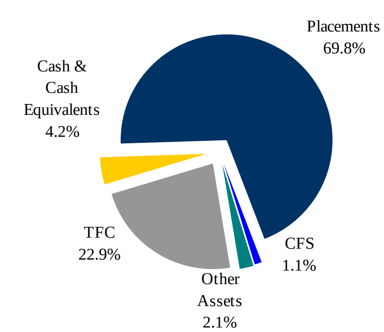
Outlook

Our outlook for the money market remains intact where we foresee the rates to remain stable. Inflation continues to be a threat and October number is expected to be on the higher side. However, no major moves are likely from SBP in terms of changes in policy rates and measures.

Return Comparison



Weighted Asset Allocation for October 2007



Disclaimer

All investments in mutual funds are subject to market risk. Past performance is not necessarily indicative of future results.

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