

## KASB STOCK MARKET FUND

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July 2007

### Snapshot

Fund Type	Open-ended equity
Inception Date	March 26, 2007
Listing	Karachi Stock Exchange
Current NAV (31-07-07)	PKR 54.00
Front-end Load	2.50%
Back-end Load	Nil

**Benchmark:** KSE 100 Index

### Fund Objective

The Fund seeks to generate long term capital appreciation and income, from a portfolio that is substantially constituted of equity and equity related securities.

### Market Review:

July 2007 saw market stall for the first time as the index closed down 25bps MoM, a net decline of 34 points to 13,738.87 level. Average daily volumes remained strong though at 353mn vs 357mn last month.

There is more cause of concern than yet demonstrated by the market as a variety of negatives emerged on the political fronts. The conclusion of the Red Mosque episode and the Chief Justices saga coupled with a massive media onslaught made President Musharraf looked perilously fragile, which has spurred a round of political deal making.

With S&P revising its outlook on Pakistan from Positive to Stable, July saw the first net outflow as SACRA balances declined by USD90mn. Whether that's a case of jittery investors or mere profit taking remains to be seen. In what was yet another good year for corporates the fiscal result season that kicked off from mid of the month managed to keep volumes strong.

The out performers in the market were Oil Refineries (+24.65%) Investment Banks (+14.75%) Insurance (+14.05%) and E&P (+13.02%). While underperformers were Synthetic and Rayon (-11.63%), Textiles (-6.92%), Cement Sector (-3.42%) and Commercial Banks (-2.72%).

Some important developments pertaining to equities included, i) Lucky Cement's announcement of its plans to raise equity funding from GDRs, ii) The largest IPO of the market, government divestment of HBL shares was held to fetch PKR12.2bn, iii) DAP prices witnessed a hike of PKR200 per 50kg in light of soaring prices worldwide positively affecting FFBL and iv) Petroleum Policy 2007

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was announced, a plan of 5 years encompassing a 6-8% increase in oil and gas prices on new discoveries and a formula based pricing mechanism allowing 100% linkage with international prices.

### Fund Performance

KASB Stock Market Fund (KSMF) return was -1.4% in July vs the KSE-30 index return of -2.2% and KSE-100 return of -0.2%. The return trailed the KSE-100 index as certain heavy weights within the portfolio namely banks succumbed to international investors jitteriness and witnessed profit taking. Though the short term outlook in such banks is shaky, there still remains a fair upside in the offing with good result expectations making them strong candidates to outperform the market in the future.

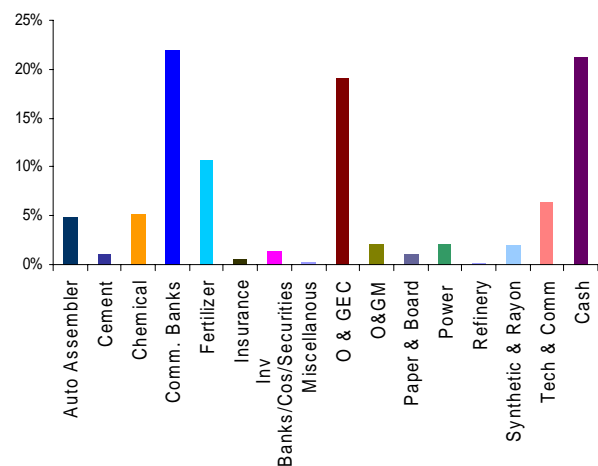
### Outlook

With enough political uncertainty about and the continuity of the results season the market is likely to remain volatile. Interestingly though, even a 50bps increase in discount rate has failed to deter investors and the market has not run into a bear spell. The start of the month is stagnated and directionless. In our view it wouldn't be implausible that market dips down a bit or consolidates at these levels before fundamental worth is reasserted and the political scene folds to a more certain outlook for the upcoming elections. Stock specific and sector specific bets are more important in our view than a market outlook. The laggard to date i.e. the E&P sector and commercial Banks which took a battering last month holds the key for the market to perform.

### Weighted Asset Allocation for July 2007

Equities	79%
Cash	21%

### Weighted Sector Allocation for July 2007



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