

## **REPORT OF THE DIRECTORS OF THE MANAGEMENT COMPANY**

The Board of Directors of HBL Asset Management Limited is pleased to present its report together with Financial Statements of **HBL Islamic Money Market Fund and HBL Islamic Stock Fund** (the Funds) for the year ended June 30, 2015.

### **Economic Review**

The Financial Year 2015 (FY 2015) saw a continuation of economic recovery. Average Inflation for FY 2015 stood at 4.53% as compared to 8.62% in FY 2014. A sharp slowdown in inflation is majorly attributable to 43% fall in international oil prices overall lower food prices.

Further, multilateral and bilateral disbursements, privatization proceeds, Sukuk auction and lower oil bill etc. helped in boosting the country's foreign exchange reserves which rose by USD 4.56 billion to close the fiscal year at USD 18.71 billion. The surge in foreign exchange reserves helped in controlling the depreciation of the Pak Rupee, which depreciated by 3.2% during the year compared to its historic average of around 4.0%, which also allowed for a loosening of monetary policy. However Foreign Portfolio Investment (FIPI) inflow in FY15 clocked in at USD 37.8 million, far lower than the USD 262 million inflow witnessed in the previous year.

Import bill remained unchanged as compared to last year, as benefit of lower oil bill was negated by volumetric increase in imports in other segments. Exports remained weak in consideration of disruptive power supplies and a weak demand outlook in export destinations particularly Europe.

All positive developments on the economic front were testified by Moody's upgrade of Pakistan's rating from Caa to B3.

### **Money Market Review**

Money market witnessed robust activity during the year, mainly due to declining interest rate scenario stemming from sharp decline in oil prices. Participation largely remained concentrated in longer tenure paper causing strain on short term liquidity which was supported by SBP through frequent OMO injections. In order to efficiently manage market liquidity, SBP introduced a target rate; 50bps below the ceiling rate (Discount rate). Moreover, to reduce volatility, policy makers also reduced the width of the interest rate corridor by 50 bps to 200 bps.

During FY 2015, SBP decreased the Discount Rate four times, from 10.00% at the start of the year to 7.0% at the close of FY15. With respect to Shariah Compliant Government Securities, no Government Ijara Sukuk (GIS) auction was conducted by State Bank of Pakistan. The last auction was conducted in June 2014 where the about PKR 49.5 billion of GIS was sold. The lack of fresh Sukuk offerings from the primary market and maturity of previously auctioned instruments has created serious shortage of risk free instruments in the market. The shortage pushed severe pressure on GIS trading yields pushing the yields down to unattractive levels. The shortage of GIS and lack of quality offerings from corporate sector poses great challenges for Islamic Interbank Market.

### **Stock Market Review**

The Karachi Stock Exchange continued its upward journey in FY15 where the KMI-30 Index posted a return of 20.01%. In USD terms, the KMI-30 Index posted a return of 16.39%, outperforming the MSCI Frontier Markets Index which posted a loss of 16.66%. In June, MSCI announced that Pakistan could potentially be upgraded from Frontier Market to Emerging Market status in June 2016. If upgraded, Pakistan's equity market would have a weight of just 0.13% in the MSCI Emerging Markets Index compared to its 8.9% weight in the MSCI Frontier Markets Index. Main drivers behind market performance in FY15 included continued improvement in the country's balance of payments position, lower interest rates, fuel and energy savings, announcement of major investment program by China, and strong growth in construction spending.

Foreign portfolio investment (FPI) inflow in FY15 continued to remain positive with addition of another USD 37.8 million. This bodes well for the stock market as it shows continuous confidence of foreign investors in the fundamentals of the listed companies in the country. As a consequence, foreigners have also become significant holders of total stock holding in the country and currently hold more than 30% of the free float of the KSE-100 according to estimates.

### **FUND'S PERFORMANCE**

#### **HBL Islamic Money Market Fund**

The total income and net income of the Fund was Rs. 37.63 million and Rs.28.75 million respectively during the year ended June 30, 2015. The Net Asset Value (NAV) of the Fund increased from Rs 100.1872 per unit as on June 30, 2014 to Rs 100.4237 per unit (after incorporating interim dividends at Rs 6.50 per unit) as on June 30, 2015; thereby giving an annualized return of 11.01%. During the same year the benchmark return (3 Month bank deposit rates) was 6.75%.

### **HBL Islamic Stock Fund**

The total income and net income of the Fund was Rs 128.463 million and Rs 100.453 million respectively during the year ended June 30, 2015. The Net Asset Value (NAV) of the Fund decreased from Rs 131.9066 per unit as on June 30, 2014 to Rs 128.2681 per unit as on June 30, 2015 (after incorporating interim dividends at Rs 18.00 per unit and cash bonus 1.00 per unit) giving a return of 11.63% during the year against the benchmark return (KMI 30 Index) of 20.10%.

### **RATING UPDATE**

The JCR-VIS Credit Rating Company Limited (JCR-VIS) has assigned asset manager rating at “AM2-” to the Management Company, whereas HBL Islamic Money Market Fund has been assigned Fund Stability Rating of “AA (f)”. JCR-VIS has also assigned one year Fund Performance Ranking at “MFR 1-Star” to HBL Islamic Stock Fund

### **AUDITORS**

The existing Auditors M/s KPMG Taseer Hadi & Co., Chartered Accountants retired and being eligible, offered themselves for re-appointment. The Board of Directors, on the recommendation of the Audit Committee, has re-appointed M/s KPMG Taseer Hadi & Co., Chartered Accountants as Auditors of Fund(s) for the next term

### **PATTERN OF UNIT-HOLDERS**

The pattern of Unit-holding as on June 30, 2015 is given in respective notes to the financial statements.

### **DIRECTORS’ STATEMENT IN COMPLIANCE WITH CODE OF CORPORATE GOVERNANCE**

This part of the Directors’ report to unit-holders is given as required under section 236 of the Companies Ordinance 1984:

1. The financial statements, prepared by the management company of the Funds, present fairly the state of affairs of the Funds, the result of its operations, cash flows and statement of movement in unit holders' funds.
2. Proper books of account of Funds have been maintained.
3. Appropriate accounting policies have been consistently applied in preparation of financial statements. Accounting estimates are based on reasonable and prudent judgment.
4. International Accounting Standards, as applicable in Pakistan, have been followed in preparation of the financial statements.
5. The system of internal control is sound in design and has been effectively implemented and monitored.
6. There are no significant doubts upon the Funds’ ability to continue as a going concern.
7. There has been no material departure from the best practices of Corporate Governance, as detailed in the listing regulations.

8. A summary of key financial data/performance table for 4 years is annexed.
9. The Directors, CEO, Executives and their spouses have made no transactions in the Fund's units during the year except as disclosed in note number 18 of the respective financial statements of HBL Islamic Money Market Fund and HBL Islamic Stock Fund.
10. The Board of Directors of HBL Asset Management Limited held eight meetings during the current financial year. The attendance of all directors is given in the following table:

<i>Sr. No.</i>	<i>Name of Director</i>	<i>Number of meetings</i>	
		Held	Attended
1	Mr. Towfiq H. Chinoy	5	5
2	Mr. Rehan N. Shaikh	5	4
3	Mr. Rizwan Haider	5	5
4	Mr. Salahuddin Manzoor	5	3
5	Mr. Salim Amlani	5	5
6	Ms. Sadia Khan	5	4
7	Ms. Sima Kamal	5	3

### **Acknowledgement**

The Board takes this opportunity to thank its valued unit-holders for their confidence and patronage. It would like to place on record its appreciation for the help and guidance provided by Securities & Exchange Commission of Pakistan, Central Depository Company of Pakistan as Trustee, the Lahore Stock Exchange and State Bank of Pakistan.

The Board also wishes to place on record its appreciation for the hard work and dedication shown by the staff.

On behalf of the Board of  
HBL Asset Management Limited

**Towfiq H. Chinoy**

Chairman

Date: September 30, 2015

Place: Karachi