

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 Income Fund, HBL Stock Fund, HBL Multi Asset Fund, HBL Money Market Fund and HBL Mustahekum Sarmaya Fund 1** (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 decrease in Discount Rate, the T-bills yields also declined by approximately 300 bps across various tenors. Cut off rates for the last auction for 3, 6 and 12 month T-Bills stood at 6.93%, 6.95% and 6.97% respectively. PIB yields also decreased to 7.94%, 8.91%, 9.97% for 3, 5 and 10 years PIBs respectively.

Stock Market Review

The Karachi Stock Exchange continued its upward journey in FY15 where the benchmark KSE-100 index notched up a 16.01% return for the year. In USD terms, the KSE100 posted a return of 12.43%, outperforming the MSCI Frontier Markets Index which posted a loss of 16.66%. Mid and small cap stocks remained in the limelight on the back of lower energy cost and commodity price. Index heavy weights i.e. Oil and Gas and Banking sectors remained the main contributors to market performance. Declining trend with high volatility in oil prices didn't allow Oil and Gas sector to perform while attractiveness of banking sector was marred by regular reductions in discount rate causing the net interest margins to shrink. 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 Income Fund

The total income and net income of the Fund was Rs. 350.59 million and Rs. 277.53 million respectively during the year ended June 30, 2015. The ex-dividend Net Asset Value (NAV) per unit of the Fund was Rs 101.3388 per unit as on June 30, 2014. The NAV of the Fund was Rs 104.9087 per unit as on June 30, 2015 (after incorporating interim dividends of Rs. 9.00 per unit), thereby giving an annualized return of 12.44%. During the same year the benchmark (6 Month KIBOR) return was 9.00%. The size of Fund was Rs 3.38 billion as on June 30, 2015.

HBL Stock Fund

The total and net income of the Fund was Rs 613.89 million and Rs 479.13 million respectively for the year ended June 30, 2015. The Net Asset Value (NAV) per Unit of the Fund was Rs 105.1183 per Unit as of June 30, 2014. The NAV of the Fund was Rs 102.5537 per unit as on June 30, 2015 (after incorporating interim dividends of Rs.11.00 per unit), thereby giving a return of 8.04% for the year under review. During the same year the benchmark KSE – 100 Index gave a return of 16.01%. The size of the Fund was Rs 4.08 billion as on June 30, 2014 which increased to Rs 4.38 billion as on June 30, 2015 showing an increase of 7.61%.

HBL Multi Asset Fund

The total and net income of the Fund was Rs 71.99 million and Rs 47.172 million respectively for the year ended June 30, 2015. The Net Asset Value (NAV) per Unit of the Fund was Rs 100.4122 per Unit as on June 30, 2014. The NAV of the fund was Rs 101.1823 per Unit as on June 30, 2015(after incorporating interim dividends of Rs. 5.00 per unit and cash bonus 0.10 per unit); thereby giving a return of 4.83% for the year ended June 30, 2015. During the same year the benchmark return (50% KSE – 100 index and 50% 6 Month KIBOR) was 12.50%. The size of the Fund increased from Rs 743.69 million as on June 30, 2014 to Rs 767.249 million as on June 30, 2015.

HBL Money Market Fund

The total income and net income of the Fund was Rs. 226.054 million and Rs. 83.53 million respectively during the year ended June 30, 2015. The Net Asset Value (NAV) of the Fund increased from Rs 100.4122 per unit at June 30, 2014 to Rs 101.1823 per unit as on June 30, 2015(after incorporating interim dividends at Rs 8.00 per unit); thereby giving an annualized return of 8.79% . During the same year the benchmark return (50% 3 – Month PKRV + 50% 3 – Month Deposit Rate) was 7.88%. The size of the Fund decreased from Rs 9.78 billion as at June 30, 2014 to Rs 5.08 billion as on June 30, 2015.

HBL Mustahekum Sarmaya Fund

The total income and net income of the Fund was Rs. 39.825 million and Rs. 27.62 million respectively during the period ended June 30, 2015. The Net Asset Value (NAV) of the Fund was Rs 100.3807 per unit at June 30, 2015; thereby giving an annualized return of 1.73% . During the same year the benchmark return (50% 3 – Month PKRV + 50% 3 – Month Deposit Rate) was 2.42%.

RATING UPDATE

The JCR-VIS Credit Rating Company Limited (JCR-VIS) has reaffirmed asset manager rating “AM2-” to the Management Company. The stability ratings for HBL Money Market Fund “AA(f)” and HBL Income Fund are “A(f)” respectively. JCR-VIS has assigned one year Fund Performance Ranking at “MFR 2-Star”, One year Fund Performance Ranking at “MFR 2-Star” and three years Fund Performance Ranking at “MFR 1-Star” for Five Years to HBL Stock Fund. It has also assigned one year Fund Performance Ranking at “MFR 1-Star”, One year Fund Performance Ranking at “MFR 1-Star” and three years Fund Performance Ranking at “MFR 2-Star” for Five Years to HBL Multi Asset 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 up to six years of operations, wherever applicable 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 18.1 and 18.2 to the respective financial statements of HBL Money Market Fund, HBL Income Fund, HBL Stock Fund, HBL Multi Asset Fund and HBL Mustahakum Sarmaya Fund 1.
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 Kamil	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