

REPORT OF THE DIRECTORS OF THE MANAGEMENT COMPANY

The Board of Directors of HBL Asset Management Limited is pleased to present its report along with Financial Statements Report of **HBL Pension Fund and HBL Islamic Pension 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 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.

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 benchmark KSE-100 index notched up a 16.01% return for the year and KMI-30 Index posted a return of 20.01%. In USD terms, the KSE100 posted a return of 12.43%, whereas KMI 30 Index posted a return of 16.66% thus 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 (FIPI) 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 Pension Fund

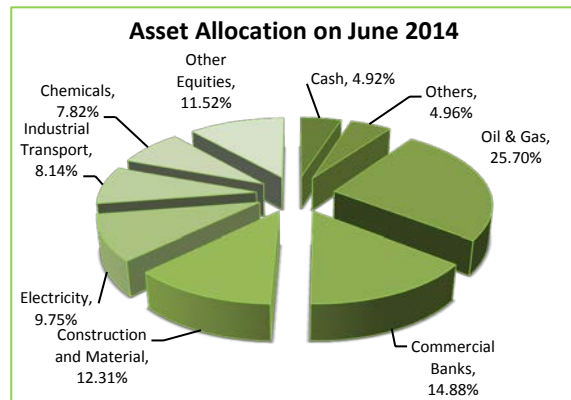
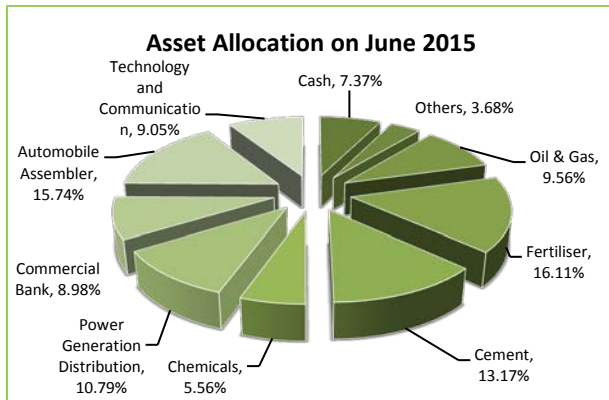
The Fund comprises of three sub funds namely Equity sub-fund, Debt sub-fund and Money Market sub-fund.

The Fund as a whole earned total and net income of Rs. 94.39 million and Rs. 42.29 million respectively during the year under review. The fund size increased from Rs 324.676 million as on June 30, 2014 to Rs. 422.137 million as at June 30, 2015 thereby showing a growth of 30.02% during the year under review. Performance review for each sub Fund is given below:

Equity Sub-Fund

During the year under review, the Equity sub-fund earned total and net income of Rs. 50.03 million and Rs 23.28 million respectively. The net assets of the Equity sub-fund were Rs. 133.225 million representing Net Asset Value (NAV) of Rs. 294.1652 per unit as at June 30, 2015. The Sub Fund earned a return of 31.58% for the year under review. The Fund is invested to the extent of 92.49% in equities.

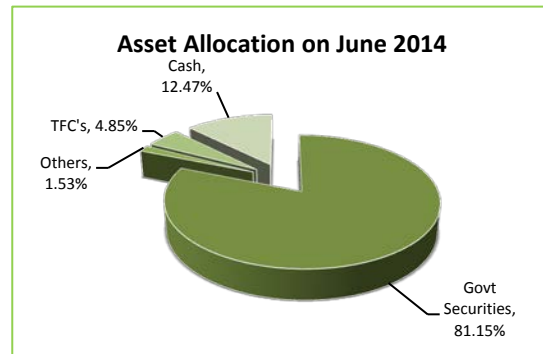
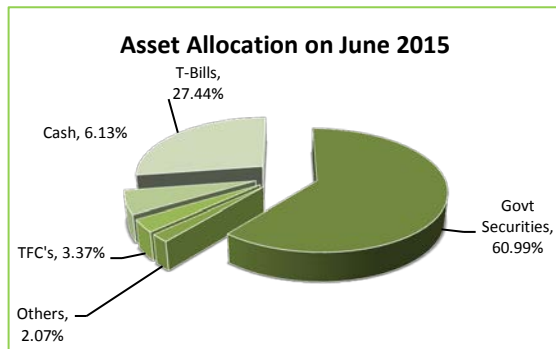
The asset allocation of the Fund in various sectors and asset classes as on June 30, 2015 and June 30, 2014 was as under:



Debt Sub-Fund

During the year under review, the Debt sub-fund earned total and net income of Rs. 25.40 million and Rs. 11.07 million respectively. The net assets of the Debt sub-fund was Rs. 150.186 million representing Net Asset Value (NAV) of Rs. 136.0235 per unit as at June 30, 2015. The Fund yielded annualized return of 11.01% for the year under review. The Sub Fund is invested to the extent of 91.88% in Government securities.

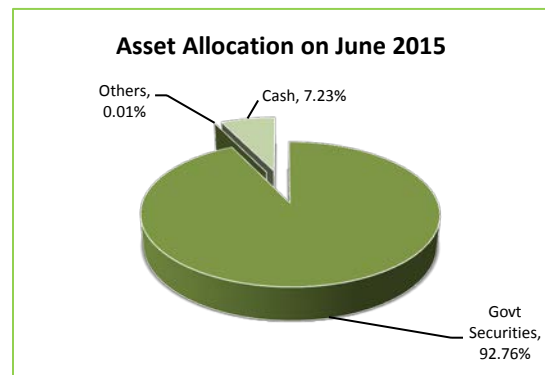
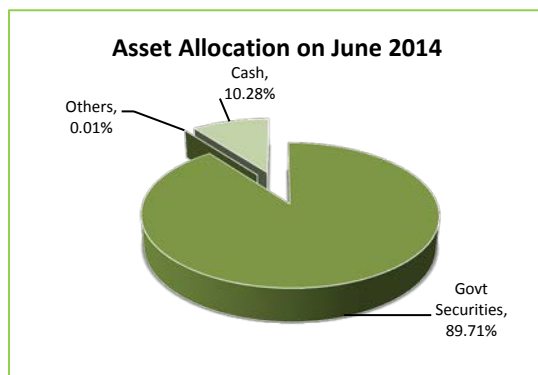
The asset allocation of the Fund in various sectors and asset classes as on June 30, 2015 and June 30, 2014 was as under:



Money Market Sub-Fund

During the year under review, the Money Market sub-fund earned total and net income of Rs. 18.959 million and Rs. 7.93 million respectively. The net assets of the Money Market sub-fund was Rs. 138.73 million representing Net Asset Value (NAV) of Rs. 129.6234 per unit as at June 30, 2015. An annualized return of 6.88% was earned by the Fund for the year under review. The Fund has major investment to the extent of 92.76% in Government Securities.

The asset allocation of the Fund in various sectors and asset classes as on June 30, 2014 and June 30, 2015 was as under:



HBL Islamic Pension Fund

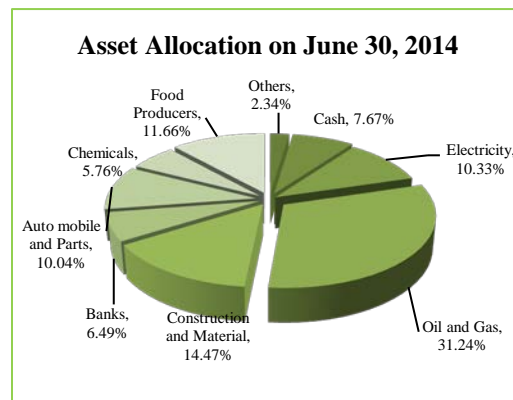
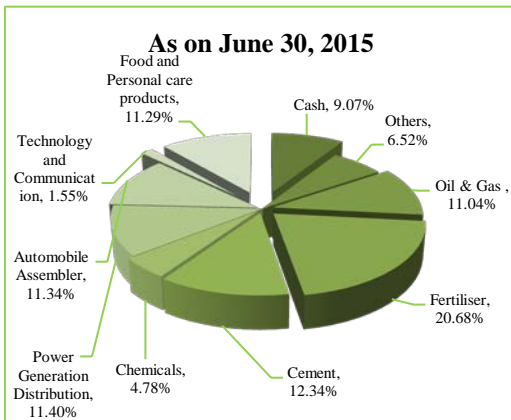
The Fund comprises of three sub funds namely Equity sub-fund, Debt sub-fund and Money Market sub-fund.

The Fund as a whole earned total and net income of Rs. 83.69 million and Rs. 38.046 million respectively during the year under review. The fund size increased from Rs 232.86 million as at June 30, 2014 to Rs. 284.95 million as at June 30, 2015 showing growth of 22.37%. Performance review for each sub Fund is given below:

Equity Sub-Fund

During the year under review, the Equity sub-fund earned total and net income of Rs. 66.69 million and Rs. 31.19 million respectively. The net assets of the Equity sub-fund was Rs. 115.12 million representing Net Asset Value (NAV) of Rs. 327.7553 per unit as at June 30, 2015. The Fund yielded a return of 25.92% for the year. The Sub Fund is invested to the extent of 90.67% in equities.

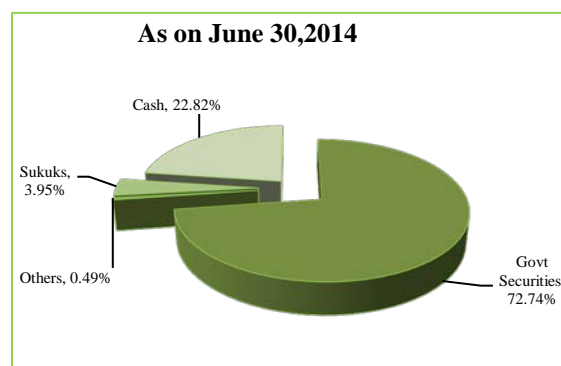
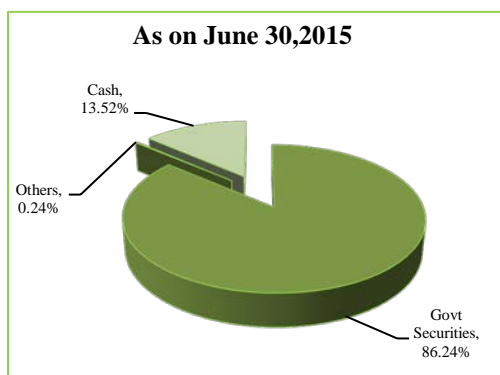
The asset allocation of the Fund in various sectors and asset classes as on June 30, 2015 and June 30, 2014 was as under:



Debt Sub-Fund

During the year under review, the Debt sub-fund earned total and net income of Rs. 9.50 million and Rs. 3.85 million respectively. The net assets of the Debt sub-fund was Rs. 74.923 million representing Net Asset Value (NAV) of Rs. 127.0785 per unit as at June 30, 2015. The Fund yielded annualized return of 4.97% for the year under review. The Fund has major investment to the extent of 86.14% in Government Securities.

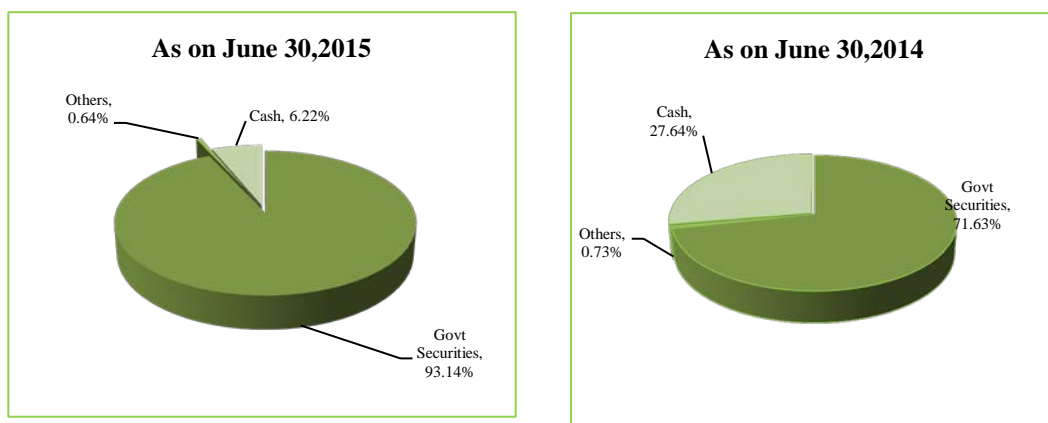
The asset allocation of the Fund in various sectors and asset classes as on June 30, 2015 and June 30, 2014 was as under:



Money Market Sub-Fund

During the year under review, the Money Market sub-fund earned total and net income of Rs. 7.50 million Rs. 3.01 million respectively. The net assets of the Money Market sub-fund was Rs.58.29 million representing Net Asset Value (NAV) of Rs. 125.8416 per unit as at June 30, 2015. An annualized return of 5.28% was earned by the Fund for the year under review. The Fund has major investment to the extent of 93.14% in Government Securities.

The asset allocation of the Fund in various sectors and asset classes as on June 30, 2015 and June 30, 2014 was as under:



AUDITORS

The existing Auditors M/s Deloitte Yousuf Adil, Chartered Accountants has 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 M/s Deloitte Yousuf Adil, 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.

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