PULSE

Al Meezan Group Newsletter August 2017

Al Meezan Investments — Pure. Profit.

Al Meezan Investment Management Ltd.

THE MARKET
HAS ALL THE REASONS TO RETEST ITS RECENT PEAK
PEAK DURING NEXT YEAR

INVESTORS
NEED TO TAKE ADVANTAGE OF THE CURRENT
ATTRACTIVE LEVELS

Contributors:
Aamir Mushtaq
Abdul Ghaffar
Abdul Basit
Adeel Ahmed
Ahmed Hassan, CFA
Ali Asghar
Ali Hassan, CFA, FRM
Asif Imtiaz, CFA
Hassan Yaqoob
Mohammad Shehmir
Muhammad Rameez
Muhammad Asad
Samreen Khan
Umer Pervez, ACCA
Zain Aamir
Zain Malik, CFA

Inside Highlights

Marketing Highlights

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Highlights of this Issue

Strategy: Suit Your Investing Style

After almost four years of investing in fixed income and the equity market, the three investors featured in our March 2013 issue have by now steadily made healthy returns that not only covered inflation but increased their wealth substantially. We will first see how their investment values have fared before we go ahead with this year's market movements and expectations.

Politics: Worst is behind us

Pakistan Stock Exchange (PSX) had witnessed sharp volatility over the last two months on account of uncertainty regarding the outcome of Supreme Court's Joint Investigation Team's (JIT) report on Panama leaks pertaining to the Prime Minister. After attaining its peak closing during the last week of May 2017, the market had experienced a steep fall of more than 17% by second week of July 2017 as the increased political noise especially after the issuance of a stern report by the JIT, kept the investors jittery thereby resulting in heavy selling which dragged the index down. It is pertinent to note however that given the economic case for Pakistan going forward, the recent fall in the market should just be considered a healthy correction and an opportunity to invest.

Economy: Staying Firm with a few trials

Finance Minister Ishaq Dar unveiled the FY18 annual federal budget in May, which is probably the last budget of the incumbent government. Significant increase was observed in federal and provincial investment budget. Federal PSDP allocation is at Rs. 1.001 trillion, up 40% from revised estimates of Rs. 715 billion, highest priority has been given to transport and communication sectors with an allocation of Rs. 411 billion including Rs.320 billion for National Highways. Consequently, GDP growth target is set at 6.0% for FY18 driven largely by increased spending along with a gradual reduction in the energy shortage with the commissioning of large scale power projects. However, certain measures have been introduced which are negative for equities such as elimination of holding period tiers on CGT and an increase in taxes on dividends.

Equity: The Sky Is the Limit

In its Market Classification Review 2016, MSCI reclassified Pakistan from Frontier to Emerging Markets category. The change was put into effect from 1st June 2017 with Pakistan carrying a weight of

0.14% in the Emerging Markets Index and 1.11% in the Small Cap Index. Earlier, Pakistan had been removed from MSCI's Emerging markets category in December 2008 due to a deteriorating investment environment; until May 2009, Pakistan remained a standalone Index, after which it was reclassified as a Frontier Market by MSCI. Now, almost seven years later, Pakistan has regained its position in the Emerging Markets category.

Investment Avenues: Equity-Highest return amongst all

Comparisons of all available investment avenues reveal that equity returns outshine all others asset classes in the long term. The return of Meezan Islamic Fund (MIF), the flagship fund of Al Meezan has surpassed KMI-30 return and provided its investors optimal risk adjusted returns.

Fixed Income: Stabilizing Interest Rates

The monetary easing scenario which commenced July 2011 onwards, seems to have come to a halt; six monetary policy statements (MPS) have been presented by the State Bank of Pakistan (SBP) during the last one year, but there has been no change in the policy rate since May 2016. The reverse repo rate and policy rate are at a historic low level of 6.25% and 5.75% respectively. During this monetary easing cycle, the SBP slashed the policy rate by 775 basis point (bps) bringing it down from 14% (in 2011) to 6.25% (at present). Going forward, the SBP is expected to maintain the policy rate at its current level due to contained inflation and expanding private sector credit off take. The KIBOR and secondary market yields have also declined during the outgoing monetary easing cycle which is clearly reflective in the reduced returns of various fixed income investment avenues.

Commodities: Gold- Make Hay While Gold Is Shining

Gold, a safe haven for parking investments in times of crisis, appears to have recovered its lost sheen as the political and economic uncertainties unfold across the globe. Performance during CY17 thus far has been impressive, as the price of the yellow metal advanced to $1,264 per ounce as of June 13, 2017, registering a return of ~10% this year. Its price also managed to touch a seven-month high of $1,294 per ounce early this month as investors flocked to safety amid growing political turmoil in UK and the surprising diplomatic rift between Qatar and other GCC countries. The election in France and President Trump's inclination towards keeping interest rates low have somewhat further supported the yellow metal in 2017

Path of Action: Make Money on Rough Tides

Despite the recent corrections, the stock market has still managed to post reasonable returns for FY17. The key driver going forward is that the country's economic activity is still improving consistently whereby the government, after achieving a GDP growth of over 5% in FY17, is now targeting a growth of 6% for FY18.

At the end of FY17, keeping our tradition intact, let's revisit the performance of the three hypothetical investors we introduced in our issue of "Market March – Enroute to Elections (March 2013)". Since our last issue on Dec 2016, the market has witnessed a plethora of political and financial events which resulted in excessive volatility. Recent rise in the political noise massively impacted the returns whereby the market went down 7.96% during June 2017, thus reinforcing the fact that equity market is not a single directional market.

So with the recent downward swing of the market already incorporated it in our calculations, let's revisit the three investor types we introduced. The investors have different psychographic profiles and are falling in different levels of risk tolerance buckets. The proportion of equity and fixed income investments are made according to the risk and return profile. The detail of the profile and the corresponding returns of each investor for the period of 40 months since we started tracking the investment are given below in the table.

Investor	Portfolio Category	Investor Profile	Actual Investment 1st March 2014 to 31st June 2017	Investment Value 31st June 2017	Annualized Return	Total Return
Mr. Ahmed	**Aggressive**	- Age 27 - Fresh graduate with first job - High risk tolerance - Invests 75% in equity and 25% fixed income	Rs. 1,000,000 (Rs. 25,000 every month)	1,302,153	16.61%	**66.88%**
Ms. Anum	**Balanced**	- Age 42 - Savings for children's education and future needs - Moderately high risk tolerance - Invests 50% in equity and 50% in fixed Income	Rs. 1,000,000 (Rs. 25,000 every month)	1,235,737	13.19%	**51.14%**
Mr. Bilal	**Conservative**	- Age 57 - Father of three - Moderate risk tolerance - Invests 25% in equity and 75% in fixed Income	Rs. 1,000,000 (Rs. 25,000 every month)	1,169,320	9.68%	**36.06%**

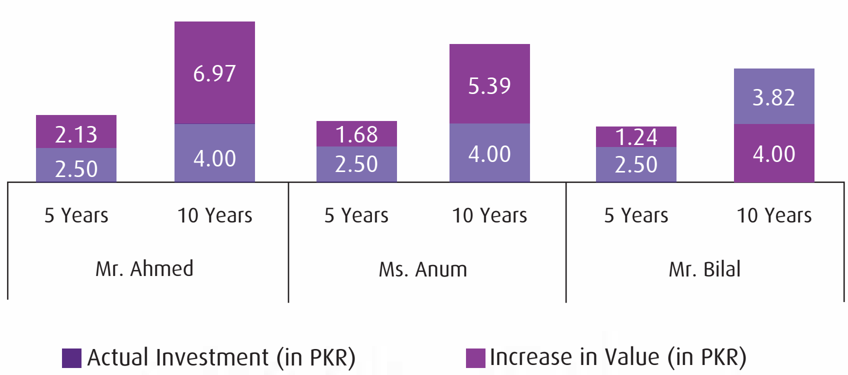
Note:*Returns have been calculated using actual KSE Meezan Index Fund -30 (KMIF-30) and Meezan Sovereign Fund (MSF) using GIPS method. Performance data does not include costs incurred directly by an investor in the form of sales load etc. Fund returns are calculated NAV to NAV with dividend reinvested.*

Analyzing the table above, it's evident that Mr. Ahmed who has the most risk tolerance and invested 75% in equity, earned a return of more than 66% in 40 months, equivalent to around 17% return on an annual basis. Ms. Anum invested a million rupees gradually and earned more than 50% during this period while Mr. Bilal who is the most conservative, still manage to earn a return of 36% despite only a 25% exposure to equities.

Expected future portfolio growth

Assuming the three investors follow the same strategy and same amount of monthly investments for another 10 years, we can expect a great differential in returns becoming evident over a longer time period; with only 75% in equity, Mr. Ahmed can more than double his investment in 10 years.

Investment Value Growth (In PKR million)



Pakistan Stock Exchange (PSX) had witnessed sharp volatility over the last two months on account of uncertainty regarding the outcome of Supreme Court's Joint Investigation Team's (JIT) report on Panama leaks pertaining to the Prime Minister. After attaining its peak closing during the last week of May 2017, the market had experienced a steep fall of more than 17% by second week of July 2017 as the increased political noise especially after the issuance of a stern report by the JIT, kept the investors jittery thereby resulting in heavy selling which dragged the index down. It is pertinent to note however that given the economic case for Pakistan going forward, the recent fall in the market should just be considered a healthy correction and a viable investment point.

Supreme Court's Decision on Panama Papers

With the Supreme Court's decision to disqualify the Prime Minister, the Panama Case is finally behind us. We believe that the outcome has eliminated the uncertainty that was prevalent in the country for the last couple of months and the induction of a new Prime Minister has set the future course of Pakistan's politics on a clearer path.

During the day the Panama decision was to be announced the market went down by 2%, however after the result, the confidence of the investors was boosted whereby the market closed in green. We expected the situation to become clearer over the next few days

Pakistan-India border tension

Since the start of the current calendar year, the tensions on the borders of Pakistan and India have seen a rise. Incidents of cross-border firing have become a norm since the end of 2016 as tensions escalated between Pakistan and India over unrest in Kashmir, alleged surgical strikes and Uri army base attack. Exchanges of fire have been reported intermittently during the current year.

The case of accused Indian spy Kulbhushan Jadhav has taken a darker turn thirteen months after the disclosure of his capture from Baluchistan. Jadhav had been sentenced to death in Pakistan by a military court in April 2017 for being involved in espionage and sabotage activities against the state but, India took the case to the

International Court of Justice (ICJ). Last month, the ICJ heard the case and restrained Pakistan from executing Jadhav, who India claims is a retired naval officer. Pakistan maintained that the ICJ did not have jurisdiction to hear the Indian application.

The ICJ has also rejected India's request to delay proceedings for Kulbhushan case until December and ordered India to submit a response by September 13, 2017.

Pakistan-Afghanistan border tension

Relations with Afghanistan have remained shaky after a series of allegations by both the countries last year regarding involvement of each other in planned terrorist activities inside their borders. On February 16, 2017 Pakistan closed all its border crossings with Afghanistan after a series of attacks on its side took lives of over 100 people. Pakistan alleged that the attacks were planned from militants' having safe havens inside the neighboring country. Pakistan reopened the borders on March 20, 2017 as a gesture of goodwill.

Killing of two Chinese Nationals

Two Chinese nationals were kidnapped on gunpoint in Quetta and were later killed. They were identified as teachers at a private school in Quetta. The responsibility of the event was accepted by Daesh. Under the current circumstances, when CPEC related projects in Pakistan are getting immense attention around the world, such incidents are raising question marks on Pakistan's commitment to the efforts of its friendly neighbor.

Qatar Crises

Saudi Arabia, United Arab Emirates, Egypt and Bahrain have diplomatically and physically isolated the small, but wealthy state of Qatar over accusations of linkages with terrorist groups like Islamic State and Al-Qaeda.

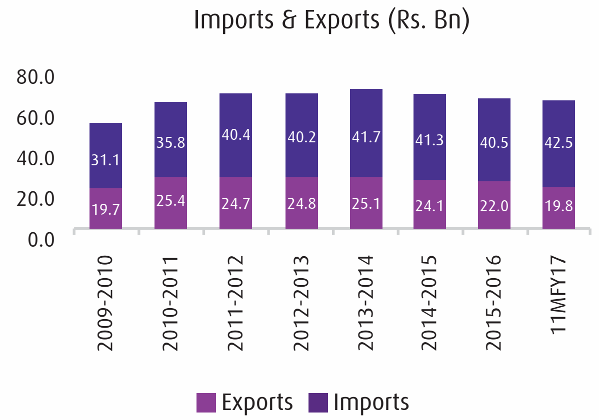
Pakistan has historically enjoyed friendly ties with both the Arab states: Saudi Arabia and Qatar. Pakistan immediately replied to this situation by stating that it will not join the KSA-led move against Qatar. The ruling elite of both the countries share close relations with the outgoing Prime Minister Nawaz Sharif, due to which taking sides in this case was has been difficult for Pakistan.

Budget FY18

Finance Minister Ishaq Dar unveiled the FY18 annual federal budget in May, 2017, with a significant increase in federal and provincial investment. Federal PSDP allocation is at Rs. 1.001 trillion up 40% from revised estimates of Rs. 715 billion; highest priority has been given to the transport and communication sectors. Consequently, GDP growth target is set at 6.0% for FY18 driven largely by increased spending along with a gradual reduction in energy shortage with the commissioning of large scale power projects. However, certain measures have been introduced which are negative for equities such as elimination of holding period tiers on CGT and an increase in taxes on dividends.

External Account Deficit

The country's external account deficit is becoming increasingly alarming for investors. This is because of a sharp rise in the country's trade deficit which has significantly deteriorated to USD 22.2 billion (11MFY17) as compared to USD 16.4 billion during the same period last year. Although, a drop in oil prices improved the current account deficit, an adverse impact of $6 bn was observed due to falling exports and increase in imports (primarily to facilitate CPEC projects). To combat the falling exports, the government has introduced an export orientated package worth Rs. 180 billion which is expected to significantly improve the exports of the country. Going forward, commodity prices and strength of the global economy will determine direction of the trade balance



Foreign Exchange Reserves, Remittances

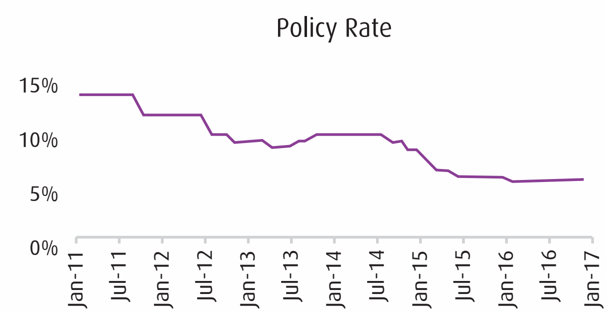
Forex Reserves are also painting a bleak outlook as they have continued to deplete at an average of USD 500 million for the past seven months. As of June 2nd 2017, the country's total liquid FX reserves stood at USD 20.5 billion as compared to USD 24.03 billion in October 2016. Workers remittances have historically played a vital role in supporting Pakistan's forex reserves increasing from USD 13.2 billion in FY2012 to USD 19.92 billion in FY2016 - an average annual growth of 10.8%; however during 11MFY17, workers remittances have dropped by about 2.13% YoY as influx from USA, UK, Saudi Arabia and GCC countries has dropped. Pakistan's recent FX borrowings include a USD 700 million loan from a European commercial bank.

Resultantly, investors are becoming increasingly concerned about the outlook of PKR. Even though the exchange rate has remained largely stable throughout the year due to intervention by the SBP, falling reserves could hamper SBP's ability to continue doing so thereby causing the rupee to depreciate. Regulating the PKR is a double edged sword for Pakistan; an overvalued rupee makes exports uncompetitive, while at the same time being a net importer, a stronger rupee can reduce the country's import bill. Thus going forward, the government needs to be cautious about maintaining stability in the exchange rate.

Policy Rate – Low as It Can Go

The policy rate has persistently declined from 14% in 2011 to 5.75% presently. Low inflation caused by suppressed oil and commodity prices over the last two years has provided the SBP enough cushions to bring the policy rate to 5.75%, down from 9.75% in 2013.

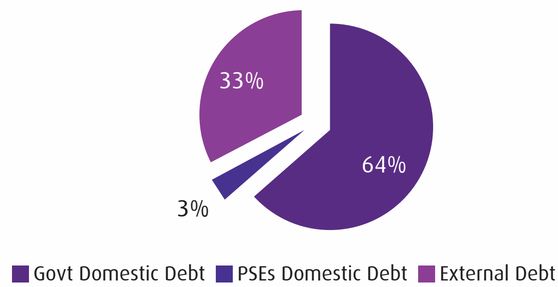
The low policy rate has led to a substantial pick up in private sector borrowing which has gone up to Rs. 4.6 trillion for FY17, compared to Rs.3.9 trillion last year. This increased borrowing has also successfully stimulated the economy as greater numbers of businesses are borrowing for working capital and expansion. Going forward, we anticipate the policy rate to remain at this level as commodity prices remain depressed.



National Debt

Another factor that has been putting investors on edge is Pakistan's constantly growing debt level. The country's total debt as at 3QFY17 stood at USD 217.9 bn as compared to USD 178.5 bn in June 2015. However, it is pertinent to mention that the total debt to GDP ratio has approximately remained in the range of 69% to 76% during the last 5 years. A primary concern though is that foreign currency debt, in absolute terms, has increased significantly during the last 4 years from USD 60 bn in June 2013 to approximately USD 73 bn presently. Going forward, the government needs to be wary of its policies relating to the country's debt levels as unsustainable amounts may lead to repayment problems for the economy.

Pakistan Total Debt (Rs. Bn)



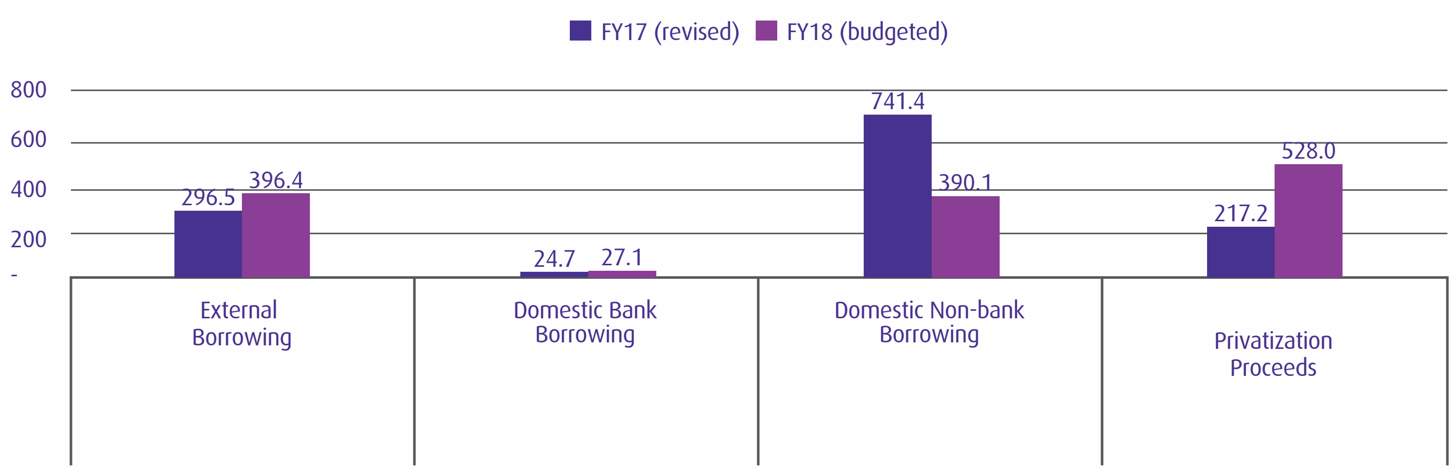
Inflation Outlook

Following the advent of PML-N government, the inflation rate has remained subdued compared to its prior sky high levels. The primary cause of this has been low international prices of oil and other commodities which not only controlled CPI inflation directly but also enhanced the profitability of several sectors on account of lower raw material costs. During FY17, inflation has averaged 4.15% - higher compared to 2.86% in FY16 but a substantially lower figure compared to 13.66% in FY11. Despite the international oil prices rebounding from a low of USD 27/bbl. in Jan 2016 to a current price of around USD 48/bbl., the inflation rate for FY17 has clocked in at 4.15%. Further, it is pertinent to mention that inflation has been targeted at 6.0% for FY18.

Fiscal Deficit; Tax Collections

The federal budget for FY18 outlines a federal fiscal deficit of Rs. 1.826 trillion, 5.1% of GDP and an increase of 11.4% from last year. An important factor that has hindered progress within the country has been low tax collection. Tax collection target for FBR was set at Rs. 4.013 trillion for FY17 as compared to a revised estimate of Rs. 3.521 trillion. Of this, the government expects to raise Rs. 1.57 trillion (up 15.6% YoY) from income tax while indirect taxes are expected to yield Rs. 2.4 trillion (up 12.8% YoY). Historically, the government has almost always fallen short of its budgeted tax revenues. For example, the FY16 tax revenues were budgeted at Rs. 3.418 trillion but the actual amount fell short at Rs. 3.377 trillion. It can be safely said that going forward, success in bringing a greater number of individuals and businesses into the tax net will be a key factor in determining Pakistan's future progress.

Fiscal Defict Financing (Rs. Bn)



Pakistan has resurfaced among Emerging markets

In its Market Classification Review 2016, MSCI reclassified Pakistan from Frontier to Emerging Markets category. The change was put into effect from 1st June, 2017 with Pakistan carrying a weight of 0.14% in the Emerging Markets Index and 1.11% in the Small Cap Index. Earlier, Pakistan had been removed from MSCI's Emerging markets category in December 2008 due to a deteriorating investment environment; until May 2009, Pakistan remained a standalone Index, after which it was reclassified as a Frontier Market by MSCI. Now, almost seven years later, Pakistan has regained its position in the Emerging Markets category.

This development will put Pakistan's equity market on larger radar as it will attract investments from Emerging Market funds across the globe. Although recently the reclassification resulted in net foreign selling as frontier market and other international active funds liquidated their positions in Pakistan, we expect emerging market flows to gather pace as market valuations and fundamentals improve. Regardless of the outflows, foreigners' activity and volumes have increased in the market post reclassification which remains a healthy sign going forward.

Improvement in law and order bears well for the market

The impressive improvement in the country's law and order situation, particularly Karachi, has led to an overall rise in consumer sentiment. Although concrete crime statistics are not available to ascertain this but a recent public admission by the Chief Minister of Sindh linked the significant drop in crime rate across the province to operations by Rangers since 2013. The combined impact of a relatively docile political setting and improved law and order situation is vital for rejuvenating economic activity, hence, the above mentioned developments are expected to have positive long-term effects for the Country on the whole and particularly the sentiments on the domestic stock exchange..

Political (Un) certainty

The Supreme Court disqualified Prime Minister Nawaz Sharif from holding public office in a landmark decision on the Panama Papers case announcing that the larger bench had unanimously deemed PM Sharif unfit for holding office and would also order an accountability court to open references against him and his family, and other respondents. Thereafter the PM House issued a notification saying that Nawaz Sharif, despite having "strong reservations" on the SC's verdict, has stepped down from his post as the premier. Reacting to the court's order, a PML-N spokesperson said that the party will utilize all legal and constitutional means to contest the verdict.

The judgment, announced shortly after 12pm, brings Sharif's third term in power to an unceremonious end, roughly one year before the scheduled general elections which would have seen him become the first Pakistani prime minister to complete a full five-year term. It is unclear at the moment who will be appointed to take over the post till the next general elections, which are scheduled for 2018.

A more efficient stock market

With Pakistan reclassified in MSCI's Emerging Markets Category, the SECP has been active in establishing best practices in the equity market such that the local bourse comes at par with international standards and is conducive for local and foreign investors alike. To this end, the commission has taken certain steps and proposed many others in order to encourage market volumes, increase efficiency in the administration, maintenance and governance of the market, to facilitate and encourage foreign investment and to ensure transparency and reliability of the trading done by brokers. The steps include the integration of Karachi Stock Exchange, Lahore Stock Exchange and Islamabad Stock Exchange into 'Pakistan Stock Exchange' while proposals to widen scrip circuit breakers, introducing market based trading halts, eliminating requirements of spot trading prior to book closure date and standardization of technology based systems are also under review. Pakistan Stock Exchange has also been demutualized with a Chinese Consortium acquiring 40% stake in PSX along with Habib Bank as the local partner. This bodes well for the market as it reflects strong long-term confidence by foreign investors in the local equities. The measures being taken and proposed will not only improve the efficiency of the market's systems and bring them in line with best practices, but they also signify the all-important commitment and intent from the regulator to attract both local and foreign investment in the equity market over the longer term. We expect similar measures to be continued going forward that would put Pakistan's equity market at par with its international counter parts.

Monetary Policy: Still room for easing?

The State Bank has brought down its policy rate to 5.75%, down by 4.25% since October 2014. Until now, low inflation numbers and a healthy forex reserves position has allowed the central bank to hold interest rates steady. Lately however, inflation has slowly crept up and recently hit the 5% mark in May'17. The external account situation has been less than impressive this fiscal year with trade deficit hitting an all-time high of USD 23.6 billion in the 11 month period. Consequently, the weak external account and payment of foreign debt has also weighed down on the Forex reserves, which have come close to USD 20 billion, down from a high of over USD 24 billion during the last fiscal year. These factors suggest that the interest rate easing cycle may have come to an end and rates are either expected to stay steady or gradually increase going forward.

Equity trumps real estate

With amendments in the Income Tax Ordinance, the government has imposed higher taxes on the real estate sector and has also increased the valuation of properties for taxation purposes. Under the new amendments, an advance tax at the rate of 3% will have to be deposited by the person registering the transfer of the asset. This tax will be non-adjustable against any other income tax liability. This amendment may provide some respite to the investors up to the property values declared in the FBR's valuation tables but considering the fact that the market values of properties mostly exceed the FBR's valuations, the excess differential could be open to probe by FBR.

This has led to a slowdown in trading activity in the real estate sector as purchase and sale of real estate will require investors to come under the tax net. Equities are now the preferred option for such investors and the inflow of liquidity from the real estate market is expected to keep equities strong. Even though the government later introduced a real estate tax amnesty scheme, it still does not fully offset the impact of the taxation measures.

Chinese investment a boon

Blue Chip Projects worth as much as USD 51.5 billion under the China Pakistan Economic corridor will provide energy, telecommunications and transportation infrastructure to Pakistan over the coming years. These investments will benefit various sectors of the equity market most importantly the Construction and Transport sectors. Needless to mention, the indirect benefits from additional income would sprawl to other sectors and increase economic growth. According to analysts, CPEC is expected to generate more than 700,000 new jobs in Pakistan.

A number of early harvest projects are already in advance stages of construction with key power projects expected to come online by end of 2018. Alongside, construction of the road network is also in full swing with key projects such as Karakoram Highway Phase-II and section of Karachi-Lahore Motorway being completed at an increased pace. We expect economic impact of these projects to be felt at the grass root level both pre and post completion.

Superior Earning potential

The 2017 forward earnings yield for the KSE100 Index is 10.2%, offering a decent spread over the 12-month T-Bill yield of 6.0%. The dividend yield alone stands at 4.7%, compared to the policy rate of 5.75%. Additional growth from economic developments and investment in infrastructure and energy can result in even higher realized total returns!

Attractive Valuations

The KSE100 Index remains attractive among regional peers based on both cheap multiples as well as fundamentals. The market currently trades at a forward P/E ratio of 9.8x, which is cheaper than most emerging and frontier markets. The Index also offers a dividend yield of 4.7%, which is much higher than its regional counterparts

When evaluating between different investments avenues, it can be observed that the KSE-100 index provided the highest investment return over the last fifteen years, translating into a compounded annual return of 24.36%. Despite foreigners net outflow of USD 652.09 million during the period under review, Pakistan Stock Exchange (PSX) has ranked 5th in world stock markets posting a return of 23.24% during FY17. The market posted a positive return mainly due to confidence of the local investors on the bourse, which is evident as the Asset under Management (AUMs) of mutual funds increased by 35% from Rs.464.4 billion to Rs.625.9 billion during FY17. The strategic advances being undertaken by SECP, along with MSCI reclassification and promising economic prospects under CPEC make a strong case for PSX going forward.

Investment Avenues – 15 Years (% Returns)

	KSE-100	Gold	DSS	10 Year Govt. Bonds	6-month T-bill	Bank Deposits	Inflation
FY03	92%	10%	11%	7%	4%	3%	3%
FY04	55%	14%	8%	6%	2%	2%	5%
FY05	41%	10%	8%	8%	5%	2%	9%
FY06	34%	41%	9%	9%	9%	4%	8%
FY07	38%	5%	10%	10%	9%	5%	8%
FY08	-11%	42%	10%	11%	10%	5%	12%
FY09	-42%	0%	12%	14%	13%	7%	21%
FY10	36%	34%	12%	12%	12%	6%	13%
FY11	29%	21%	13%	14%	13%	7%	14%
FY12	10%	6%	12%	13%	12%	6%	11%
FY13	52%	-23%	12%	12%	10%	5%	7%
FY14	41%	8%	12%	12%	10%	5%	9%
FY15	16%	-12%	11%	11%	9%	5%	5%
FY16	10%	13%	8%	9%	6%	4%	3%
FY17	23%	-6%	8%	9%	6%	3%	4%

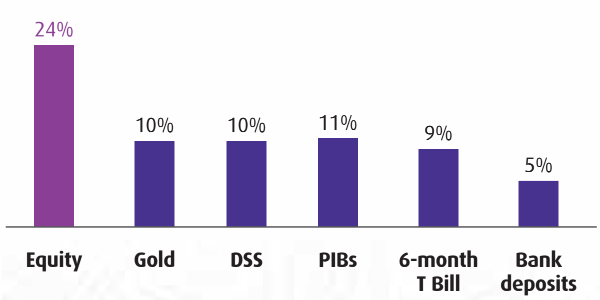
Note: *Performance data does not include costs incurred directly by an investor in the form of sales load etc. Fund returns are calculated NAV to NAV with dividend reinvested.*

Meezan Islamic Fund (MIF) – From Legend to Legacy

Launched as the first open-end mutual fund of Al Meezan, MIF, our flagship fund, has amassed a history of 14 years maximizing returns for its shareholders. The objective of MIF is to provide a halal Sharia based investment path that gives ultimate benefit to its shareholder.

With current Assets under Management (AUMs) of around Rs. 54.85 billion, MIF has accomplished remarkable performance in a short span of time as shown in the table below

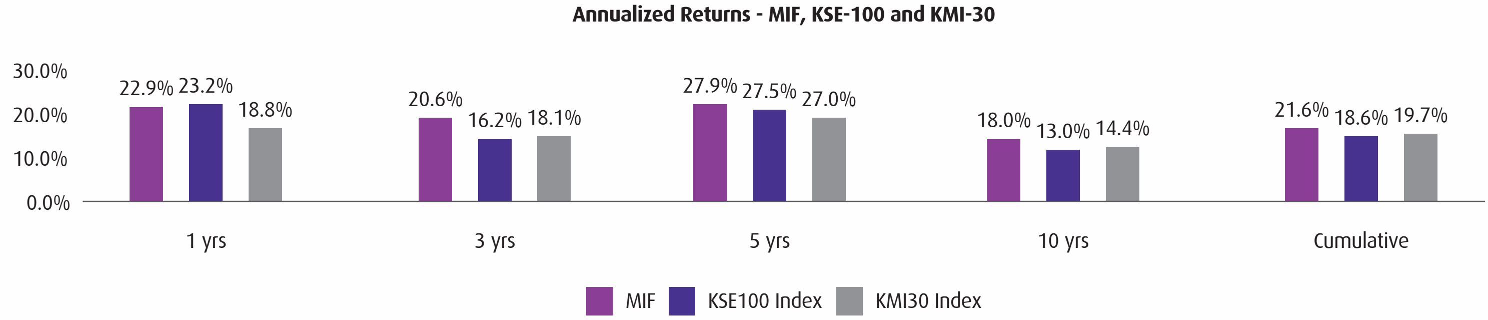
Investment Avenues-15 Year CAGR



	Pak Rupees		Dollar Adjusted	
	MIF	KMI-30	MIF	KMI-30
12 yrs	20%	18%	14%	12%
10 yrs	18%	14%	12%	12%
7 yrs	28%	27%	24%	24%
5 yrs	27.9%	27.0%	25%	24%
3 yrs	21%	18%	18%	16%

Meezan Islamic Fund – Consistently Beating the market

MIF has outshined Pakistan's Benchmark KSE-100 index. The graph below shows the annualized fiscal year (FY) returns of MIF, KSE-100 and KMI-30 for the past 1, 3, 5 and 10 years.



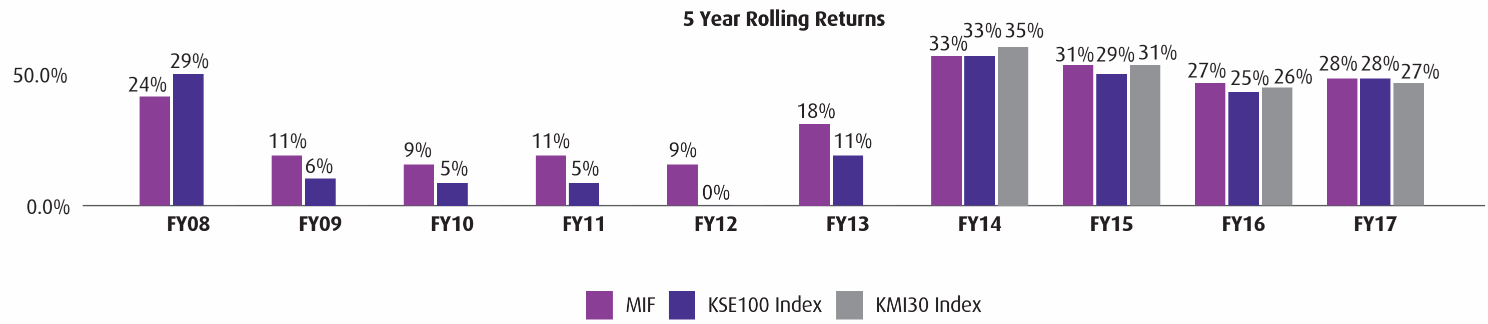
Investors Trust

Al Meezan investments continuously strives to provide highest possible risk adjusted return to its investors with highest return of 22.8% by Meezan Islamic fund in FY17.

The research and fund management team at Al Meezan Investments follows prudent investment strategy to ensure that the best equity picks are included in MIF portfolio, which help in sustaining MIF's consistently high returns even during less favorable market conditions and serve as a key determinant in success of MIF.

Investors Return

Equity has remained the best performing asset class for long-term investors willing to withstand short to medium term volatility. A five year rolling return of 28% shows the increased enthusiasm of investors in the Country's capital markets and the momentum is expected to continue in the current year.



Note: *Performance data does not include costs incurred directly by an investor in the form of sales load etc. KMI30 was launched in FY09, therefore 5-year rolling return cannot be calculated before FY14. Fund returns are calculated NAV to NAV with dividend reinvested.*

Long Term Strategy: The growth story

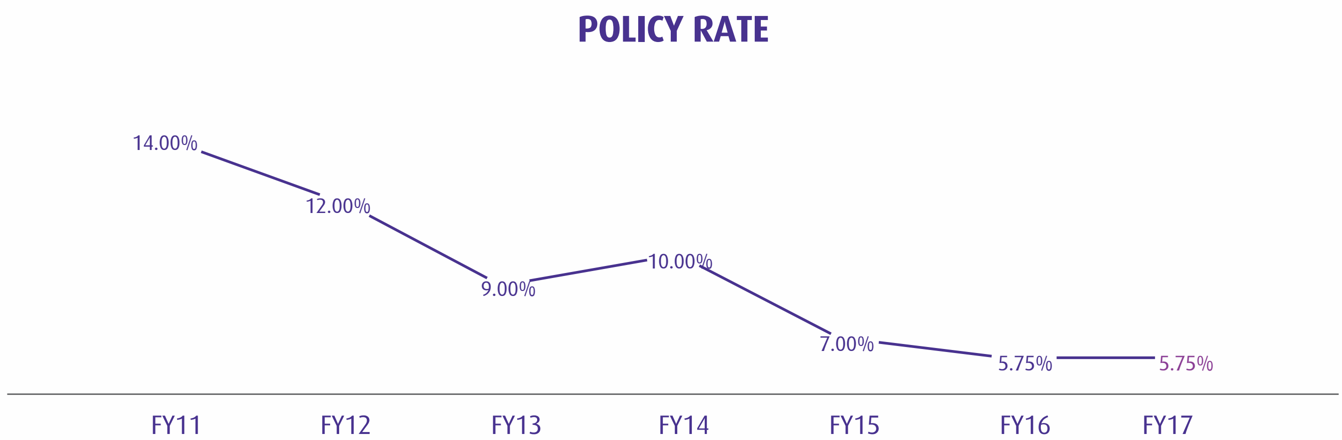
Assuming an investor made an initial investment of Rs. 100,000 in MIF on the day the fund was launched in August 2003 and did not make any withdrawals, his investment would now have grown to Rs. 1,819,468.57 till FY17 earning a CAGR of 25.21% annually. Therefore with stable outlook, investment in equity is the best option to achieve high returns with a medium to long term perspective.

Fixed Income: Interest Rate Bottom out!

The monetary easing scenario which commenced July 2011 onwards seems to have bottomed out; the State Bank of Pakistan (SBP) has presented six monetary policy statements (MPS) over the last year, but the policy rate has been maintained since May 2016. The reverse repo rate and policy rate are at their historic low levels of 6.25% and 5.75% respectively. During this monetary easing cycle, the SBP slashed the discount rate by 775 basis point (bps) bringing it down from 14% (in 2011) to 6.25% (at present). Going forward in the upcoming MPS, the SBP is expected to maintain the policy rate at the current level based on contained inflation and expanding private sector credit off take. The KIBOR and secondary market yields have also declined during the outgoing monetary easing cycle which is clearly reflective in the reduced returns of various fixed income investment avenues.

The major reasons behind the monetary easing phase were the significant decline in oil prices in the international market since the first quarter of FY'15 which served as a major impetus in melting down the inflation along with improvement in other macroeconomic fundamentals. Over the last year, oil prices have remained range bound in the band of USD 45 to USD 55 per barrel.

The end of monetary easing scenario can be observed from the below mentioned chart as the policy rate is unchanged since last one year:



A quick review of changes in interest rates and yields over the monetary easing cycle mentioned above, can be seen in the following table:

	Before Monetary Easing (June 2011) (%)	Current Rates (%) (June 2017)	Difference from July 2011
SBP Policy Rate	**14.00%**	**5.75%**	**-8.25%**
GoP Securities			
6- Months T-Bills	13.76%	6.01%	-7.75%
10-Year Pakistan Investment Bonds (PIBs)	14.07%	8.18%	-5.89%
Ijarah Sukuks (3 year)	14.00%	4.70%	-9.30%
Saving Schemes			
Special Saving Certificates - 3 years	14.00%	6.03%	-7.79%
Defense Saving Certificates - 10 years	13.55%	7.54%	-6.01%
Corporate Instruments			
TFCs (AA- rated and above)	14.50%	6.25%	-8.25%
Corporate Sukuks	15.70%	6.00%	-9.70%
Bank Placement (AA Rated and above)	12.50%	5.60%	-6.90%

Future outlook!

International oil prices are currently under pressure, striking at the lowest level of 2017, due to rising output from Nigeria and Libya, two OPEC members exempt from cutting supply. However, in the medium term, oil prices appear to be stabilizing due to which prospective inflation is expected to stay in check around its current levels. Based on the low inflation, the real interest rate corridor is expected to stay intact, hence, interest rates are expected to stay stable around their current levels. Going forward, as the work on projects under China Pakistan Economic Corridor (CPEC) gains momentum, influx of foreign direct investment is expected to increase, thereby releasing the forex pressure on SBP but the uncertain exchange rate scenario coupled with rising external debt and widening external account deficit may restrict the central bank's ability to maintain the interest rates at their current low.

Overall, in the current scenario, the market appears to be concentrating around the expectation of unchanged interest rates in the upcoming bi-monthly Monetary Policy Statement.

Lack of avenues!

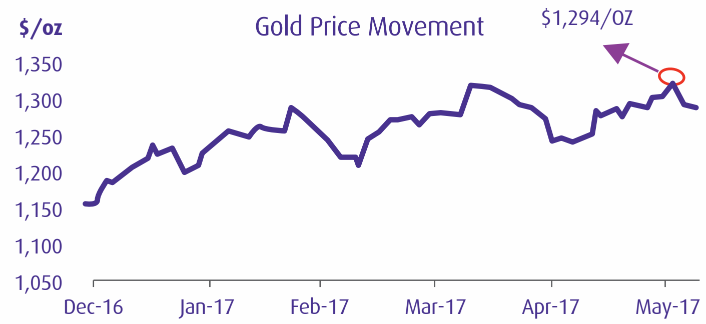
The issue of lack of Shariah compliant investment avenues has continued despite a strong growth in Islamic deposits over the last few years. Recently, the maturity of GoP Ijarah XV amounting to Rs. 49.54 bn added further pressure on Islamic money market and resultantly, appreciation in the prices of other Ijarah was witnessed as a few banks desperately needed to buy government papers to fulfil their SLR requirement. Some respite was witnessed when the federal government issued a Rs. 71 bn worth of Fixed Rental Rate GOP Ijarah Sukuk (Ijarah sukuk XIX) at a rate of 5.24% with the M1 Motorway as the underlying Asset. However, it is pertinent to note that the latest Ijarah sukuk auction is clearly reflective of the desperation of Shariah compliant counters for deployment of funds; in its last auction, the comparable conventional instrument, i.e. the fixed rate 3 year PIB was auctioned at a cut-off rate of 6.41% while the Islamic market offered funds at 5.24%, a negative differential of around 1.17%!

There is a possibility that the federal government may announce another GoP Ijarah auction in near future based on a news report of May 2017 whereby the GoP showed its intention to raise as much as Rs150 billion against the assets of M1 (Peshawar-Islamabad) and M3 (Pindi Bhattian-Faisalabad) motorways, by issuing fresh Ijarah Sukuk in the domestic market in FY18 to help finance its growing budget deficit. Given the current issuance of Rs. 71 billion, the government still has a cushion available for the issuance of another Ijarah.

At present there are just four GoP Ijarah Sukuks (one floater and three fixed rate) outstanding cumulatively amounting to Rs. 385 bn against the Islamic Banking deposits of around Rs. 1.5 trillion. Further, the SECP has announced its intentions of setting up a practice of holding seminars to educate corporates on the benefits of raising capital through issuance of Sukuks so hopefully, the issuance of new Sukuks (both government and corporate) shall aid the Islamic market in tackling its long outstanding excess liquidity problem.

Gold – A Safe Heaven

Gold, a safe haven for parking investments in times of crisis, appears to have recovered its lost sheen as the political and economic uncertainties unfold across the globe.
Performance during CY17 thus far has been impressive, as the price of the yellow metal advanced to $1,264 per ounce as of June 13, 2017, registering a return of ~10% this year. Its price also managed to touch a seven-month high of $1,294 per ounce early this month as investors flocked to safety amid growing political turmoil in UK and the surprising diplomatic rift between Qatar and other GCC countries. The election in France and President Trump's inclination towards keeping interest rates low have somewhat further supported the yellow metal in 2017.
Though the price of gold has recently remained under pressure as depicted in the chart, long term prospects paint a brighter picture for it owing to number of factors.



US Fed

The US Fed had increased its benchmark rate for the second time this year by another quarter percent, thereby extending the range to 1% - 1.25%. The FOMC also pointed out that it will also begin the process of reducing its balance sheet this year.
Fed's interest rate trajectory is by far the most vital element in determining the direction of gold prices, whereby the two are inversely related. While the Fed has indicated further rate hikes this year, it also acknowledges that inflation will fall well short of the 2 percent target, which technically purports a tightening monetary policy. Resistance on further rate hikes is also observed on the economic data front, U.S. consumer prices unexpectedly fell in May' 17 and at the same time, retail sales recorded their biggest drop in 16 months due to softening domestic demand. Fading consumer sentiment and failure to meet inflation targets are major obstacles hindering Fed's hawkish stance, which could undermine its ability to continue raising interest rates this year, thereby provide support to gold price.

Geopolitical Uncertainty

Europe lately has become the center of attention when it comes to geopolitical tensions as recently depicted in Emmanuel Macron's election as French president after he surpassed his far-right wing rival Marine Le Pen. Contrary to some beliefs that with this result, European market uncertainty has receded, it is actually far from over UK's hung parliament with the ongoing BREXIT negotiations with the EU adds further uncertainty in Europe's domain going forward. A number of terrorist attacks in UK recently have also caused panic in the capital markets, as the region struggles to cope with the worsening law and order situation.
Outside Europe, tensions between the US and North Korea are palpable subsequent to North Korea's announcement that it has tested an intermediate-range ballistic missile. The latest missile test and continued threats by global leaders could only escalate the turmoil further.
The surprise decision of GCC members led by Saudi Arabia to abandon ties with Qatar on accusation of supporting terrorist activities and Iran left many investors puzzled. Continued deterioration in relations among the Middle East neighbors, along with the accompanying global unrest shall only exacerbate the current scenario, triggering gold prices at the same time.

Global Markets

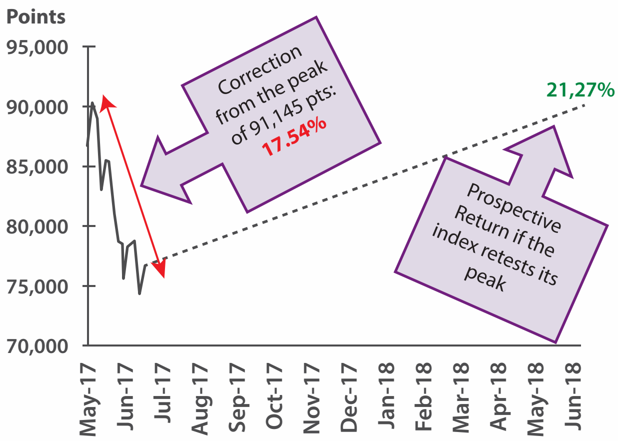
Global markets and in particular the US markets have surged since their elections in November 2016. Hopes of deregulation, tax cuts, and fiscal spending as part of President Donald Trump's policies initially spurred US markets. Although the expectations still hold, the initial euphoria with respect to Trump's policies has weakened. In a risk-on environment, gold and other safe-haven assets aren't expected to do well as investors prefer to hold other profitable assets. However, such profitably may be questionable as according a number of surveys, US equity market valuation is high compared to historical levels. Keeping in view such dynamics, gold could be one of the most optimal cards for investor's portfolio allocation.

Invest Through Meezan Gold Fund

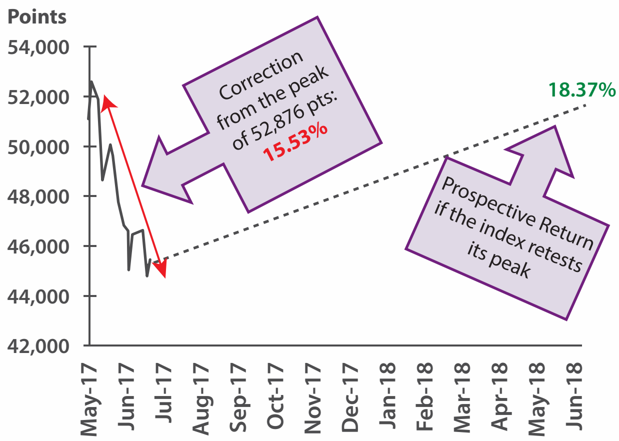
Investors earn handsome returns when markets are performing. However, the idea is to keep generating returns even during times of turmoil. With this idea, Meezan Gold Fund (MGF), the flagship Shariah compliant Commodity fund in Pakistan, was launched which has provided its investors an avenue to take exposure to physical gold for better portfolio diversification. Investment in gold was never easier, as one can start with an amount as low as Rs 5,000, and add further exposure with Rs 1,000. As uncertainty looms over the globe and could aggravate going forward, we encourage our investors to adopt a prudent approach and take moderate exposure to MGF as well in addition to an equity / fixed income oriented portfolio. With a potential upside on the cards, we advise investors to grab this opportunity and make hay while Gold is shining!

Despite the recent corrections, the stock market has still managed to post reasonable returns for FY17. The key driver going forward is that the country's economic activity is still improving consistently whereby the government, after achieving a GDP growth of over 5% in FY17, is now targeting a growth of 6% for FY18.

KSE-30 Prospective Performance for FY18



KSE-100 Prospective Performance for FY18



Once the political headwinds subside, the market volatility is expected to recede to its normal range post which the indices may gear up to retest their peaks. The investment case for the above mentioned scenario has been highlighted in the graphs presented above; it shows that in case the KMI-30 and KSE-100 indices test their previous peaks during FY18 (which is a very plausible scenario) given the fact that the economic fundamentals are intact and improving, the investors will be set for a prospective return of over 15% during the new fiscal year. We would also like to highlight here that our flagship fund, Meezan Islamic Fund posted a return of 22.88% during FY17, outperforming its benchmark, the KMI-30 index by 4.09%. Given the market's volatile behavior, it is advisable for the investors to take/increase their exposure to equities through professional investment management services.

Marketing Highlights

CONTRIBUTORS

Ali Lawai, CFA
Niazi Malik
Zufa Kanwal

Al Meezan Investments is Now "AM1", the Highest Management Quality Rating in Pakistan

Since its inception in 1995, Al Meezan, as Pakistan's only 100% Shariah compliant asset Management Company, has created a unique space for itself amongst Pakistan's asset management industry. Over the course of the past fiscal year, Al Meezan, Pakistan's largest asset manager, achieved the distinction of becoming the nation's most highly rated asset management company in terms of management quality with AM1 rating (by JCR-VIS). With total assets under management of Rs. 109 billion (as on June 30th, 2017), Al Meezan continues to set industry trends as Pakistan's most highly rated asset management company.

Proud Moment for Pakistan, Mohammad Shoaib, CFA, CEO, Al Meezan Investments Ltd., Part of CFA Institute Closing Bell at NASDAQ

Meezan Investments is pleased to announce that Mr. Mohammad Shoaib, CFA, CEO Al Meezan Investment was the only Pakistani member of the CFAI GIPS Executive Committee team that was present for the Closing Bell ceremony at NASDAQ Market Site, Times Square. CFA Institute, the global association of investment management professionals, in honor of the 30th anniversary of CFA Institute Global Investment Performance Standards (GIPS®) rang the Closing Bell at Nasdaq Market Site in Times Square.

Mr. Mohammad Shoaib, CFA, as the Chief Executive Officer of Al Meezan Investment Management Limited, has played a key role in setting up the company and making it the largest asset management company in Pakistan, currently managing total Assets of over Rs. 109 Billion (as on June 30th,2017). He has been associated with the company since inception in 1995. He is a highly qualified and seasoned professional with over 25 years' experience. Amongst his many awards and accolades, he also holds the title of "Most Influential CFA charter holder", awarded by the CFA Institute in 2006.

Islamic Investments & Capital Markets Awareness Seminar by Al Meezan Investments and Central Depository Company

With the objective of educating people about mutual funds and Shariah compliant investing, Al Meezan Investments, in partnership with the Central Depository Company held an awareness raising seminar on May 24th, 2017.

The objective of the session was to help educate both current and potential investors with respect to their investment needs and educate them about the different investment avenues available to them.

Speaking at the event, Mr. Talha Anwar, Head of Sales, Al Meezan, during the event, noted that there is a high potential amongst the local market for Shariah compliant investing. He went on to mention the awareness challenges facing the industry. One of the reasons this seminar was organized.

During the seminar, Mr. Anwar explained the benefits of mutual funds as an investment vehicle. He said that mutual funds as a structured mechanism helps individuals to generate wealth

Meezan Strategic Allocation Plan-III

2017 saw the launch of Meezan Strategic Allocation Plan – III, the third in a series of plans under Meezan Strategic Allocation Fund (MSAF). The plan makes use of an active asset allocation strategy by which to provide competitive returns on investment. It allows investors the benefit of the equity market, while also being a part of an actively managed and diverse investment portfolio. The plan has an initial term of two years.

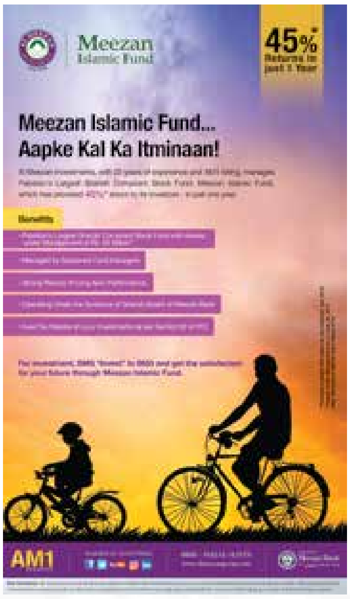
Meezan Strategic Allocation Plan-IV

Al Meezan Investment Management Limited (Al Meezan) announced the launch of Meezan Strategic Allocation Plan-IV, fourth in series under Meezan Strategic Allocation Fund (MSAF). The plan will use active asset allocation strategy for providing competitive returns on investment. MSAP-IV will smartly invest and disinvest between Islamic Equities and Islamic Income/Money Market based mutual funds, depending on the Fund Manager's outlook on asset classes. The plan has an initial term of two years.

Launch of first 360 degrees Product Campaign – Meezan Islamic Fund

As Pakistan's largest asset management company, Al Meezan has always positioned itself as a partner for building wealth, the right way. With that in mind, the brand launched its first product TVC for Meezan Islamic Fund (MIF), the company's star product. With AUM's of Rs. 55 billion (As on June 30th, 2017), MIF has been Al Meezan's best performing fund to date and continues to provide its investors with high returns (2016 saw returns of 45%).

The TVC was launched and with a focused execution plan, was able to garner a wide reach and was met with much positivity amongst existing and potential customers. With Al Meezan, we don't just provide Shariah compliant investment avenues, we provide a gateway to a comfortable future.



Annual Sales Conference – FY 2017

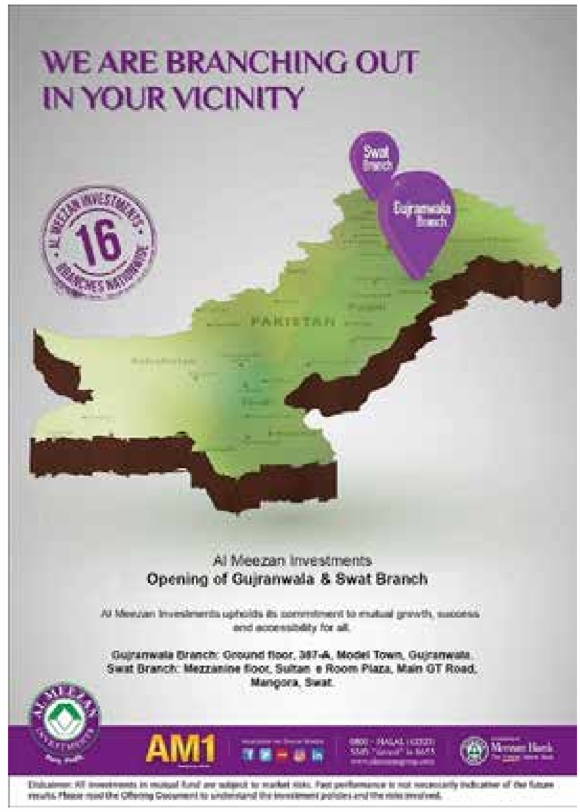
As is done every year, Al Meezan hosted its Annual Sales Conference. The hosting of the Conference heralds in the end of the fiscal year and provides an overview of the company's successes over the last 12 months.

For the first time, the Conference was held outside of Karachi. Seventy plus members of the Al Meezan team made their way to the beautiful and scenic hill station of Nathiagali. The conference saw members of the Sales, Investment, Strategy and Marketing teams present a summary of the previous year's activities and their plans for the next 12 months. The Conference concluded after two days and the teams spent the remainder of the time exploring the surrounding areas.

Al Meezan Investments
Expands Branch Network

Keeping in line with its expansion strategy, Al Meezan Investments added two more cities to its branch network with the opening of a branch each in Swat and Gujranwala. With this, Al Meezan continues its promise of bringing Shariah compliant investment avenues to the different corners of the nation.

As Pakistan's largest asset management company, Al Meezan believes in enabling the nation and its people to build wealth, the right way.



Al Meezan
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AM1
Rating by JCR-VIS

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Contact Us

SMS "invest" to 6655
0800 - HALAL (42525)
info@almeezangroup.com

We are available on Social Media

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For investment services and advice, visit any Al Meezan or
Meezan Bank* Branch across Pakistan.

Registered Office
Ground Floor, Block 'B' Finance & Trade Centre, Shahrah-e-Faisal,
Karachi-74400, Pakistan.
UAN: (021) 111-633-926 (111-MEEZAN)

*Meezan Bank's role is limited to Distribution of units only

Disclaimer: All investments in mutual funds are subject to market risks. Past performance is not necessary indicative of the future results. Please read the Offering Document to understand the investment policies and risks involved.