20 YEARS OF STRENGTHENING RELATIONSHIPS

Fruits of Longevity

December 2015

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Turning the leaf:
Entering the New Year

Twenty nine months into the PML-N regime, the country has been through highs and lows. Higher GDP growth rate, successful divestments of government holdings, strengthening relations with China ,successful Zarb-e-Azab operation and restoration of peace in Karachi have fared well for the country. The agreement on a National Action Plan (NAP) as major coordinated state retaliation against terrorists following the deadly Peshawar school attack, continues with increased vigor and strength. While economic progress and stability are in sight, only the turn into the New Year will tell if tranquility will prevail and gyrations of capital markets end.

Strategy: Suit Your Investing Style

After almost three 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, which not only covered inflation but increased their wealth substantially. Let us first see how their investment values have fared before we go ahead with this year's market movements and expectations.

Politics: Protests to Political Unity

The year marked the completion of the government's half term successfully in office. A myriad of events dotted the political landscape of the country during the current government term. The agreement on a National Action Plan (NAP) as a major coordinated state retaliation against terrorists following the deadly Peshawar school attack continues with increased vigor and strength.

Economy: Beginning of Glad Tidings

Having fixed the macro issues plaguing the economy, the government has shifted focus towards growth. Guided reforms under IMF in energy sector and exogenous events such as low oil prices have improved the fiscal and external account position. After witnessing below potential GDP growth rate in the past few years due to energy shortfalls, the stage is now set to take critical decisions to lay down path for high growth phase. Materialization of investment plans under CPEC will act as major trigger in removing bottlenecks in economy such as power and gas shortage. Any failure to attract FDI to increase power generation and improve infrastructure will keep GDP growth stunted in the range of 4-5%.

Equity: A Bet Worth Taking

Capital outflow fears due to impending US interest rate hike and resultant pressure in rupee combined with political noise at home has kept the market in check during the last few months. Continuous pressure in crude prices in international market has dampened KSE 100 performance as oil stocks make significant percent of its weightage. Investors have ignored positives such as CPEC and reforms in taxation and power sector and concerns on foreign selling have taken up central stage. However market weakness has opened up valuation gaps to regional peers as KSE now currently trades at a trailing price to earnings of 9.8x, a ~25% discount to frontier markets.

Investment Avenues: Equity-the best bet in the Long Run

Comparisons of all available investment avenues reveal that equity returns outshine all others asset classes in the long term. While Pakistan's stock market returns outperformed many regional markets, the return of Meezan Islamic Fund (MIF), the flagship fund of Al Meezan has successfully surpassed KSE-100 return and provided its investors optimum risk adjusted returns.

Fixed Income: End of the Easing Era

As SBP resumed its monetary easing stance in second quarter of FY 2015, after a gap of one year, the SBP policy rate has been reduced to a single digit of 6.0%. However movements in money market, seen in past two months, and the recent decision of a status quo in the discount rate signal the end of monetary easing. Going forward, commodity and agri market price trends will determine the size and timing of the next interest rate move.

Gold: Safeguarding Wealth

With low correlation with other investment avenues such as equities, fixed income securities and currencies, gold makes an attractive investment case.

Path of Action: Make Money on Rough Tides

With the volatility in international markets led by anticipation of a US rate hike, weakening of commodity markets, historically low interest rates, returns on equity market can be expected to be around 15%.This return, compared to other asset classes, still makes equity a bet worth taking.

Suit Your Investing Style

Keeping the tradition of our magazine intact, let's look at our three valued investors which we introduced in our issue of "Market March – Enroute to Elections (March 2013)". In the last issue, "Flight to new Heights", we had shown how well Mr. Ahmed, Ms. Anum and Mr. Bilal had fared from our proposed investment allocations after completing twenty months of investment (from April 2013 to November 2014).

Now again let us see where their portfolio values stand for a period of twenty months given the actual equity and fixed income fund returns from 1st March 2014 – 30th Oct 2015. The three investors have different returns as the investment was made suiting to the actual risk and return profile of each investor. The table below shows the actual investment done by the three individuals along with increase in values and annualized returns.

Investor	Portfolio Category	Investor Profile	Actual Investment (1st March 2014- 30th Oct 2015)	Investment Value as of 31st October 2015	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. 500,000 (Rs. 25,000 every month)**	**Rs. 558,286**	**15.8%**	**27.82%**
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. 500,000 (Rs. 25,000 every month)**	**Rs. 547,468**	**12.7%**	**22.01%**
Mr. Bilal	**Conservative**	- Age 57 - Father of three - Moderate risk tolerance - Invests 25% in equity and 75% in fixed Income	**Rs. 500,000 (Rs. 25,000 every month)**	**Rs. 536,773**	**9.5%**	**16.33%**

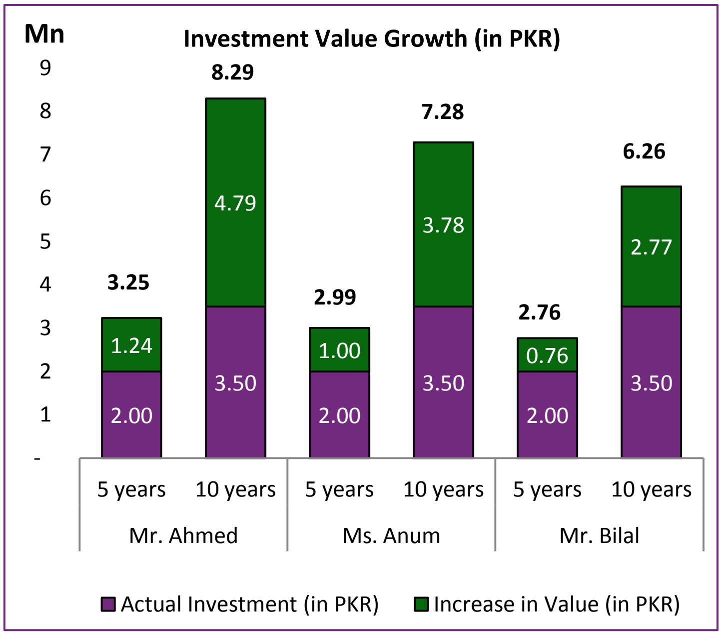
Note: Returns have been calculated using actual Karachi Meezan Index Fund -30 (KMI-30) and Meezan Sovereign Fund (MSF) using GIPS method

Looking at the above returns, we can see Mr. Ahmed who has a high risk tolerance, with increased exposure to equities earned the highest return in the last twenty months. The 2nd highest return was received by Ms. Anum with her balanced portfolio and a higher than the risk free return was earned by Mr. Bilal with a conservative portfolio taking his risk aversion into account.

Expected future Portfolio Growth

Assuming that all the three investors continue to remain invested and every new investment is made in the same allocation, we can expect their portfolio values to take new heights after 5 and 10 years from today as shown in the graph on the right.

Note: Al Meezan tries to maintain a prudent stance on the stock market expectations in its communication to investors; hence, relatively conservative returns are used in the projection



Protests to Political Unity

The year marked the completion of the governments more than two successful years in office. A myriad of events dotted the political landscape of the country during the two years. The agreement on a National Action Plan (NAP) as major coordinated state retaliation against terrorists following the deadly Peshawar school attack continues with increased vigor and strength.

Pacifying the disgruntled

Resignation of MQM lawmakers from the National Assembly in wake of the alleged victimization of the party members with support of provincial government had created political chaos. Formation of a grievance redressal committee by the government calmed the party members and led to withdrawal of their resignations. Concerns however remain.

Judicial Commission excitement overplayed

Judicial Commission's findings led to eclectic mix of disappointment and confusion among thousands hoping for justice following the 2013 elections. The commission, contrary to expectations, gave the incumbent government a clean chit, clearing them of rigging allegations leveled by PTI.

Local bodies' elections- PML-N remains popular

Results of the first phase of the local bodies elections held in Punjab and Sindh gave a clear winning mandate to PML-N and PPP whereas PTI struggled to secure any sizable majority.

A promising friendship: Military and civil establishment

The civilian government, with the backing of the army, has continued with its policy of zero tolerance for terrorism on the national security space. Joint effort by both under the ambit of the NAP has improved law & order across the country. Operation Zarb-e-Azab continues with increasing success in hitting the militant groups as well their financiers.

Capitalizing the Sino-Pak friendship

Pakistan and China have signed projects worth USD 46 billion under the China–Pakistan Economic Corridor (CPEC) to connect Gwadar at the Arabian Sea with Xinjiang in northwest China. It includes investment in energy, transportation, and infrastructure projects. Execution of projects under CPECs will usher Pakistan into new era where real GDP growth can exceed 5% as a result of much needed reforms in power and infrastructure sector. It will not only strengthen already strong relations between the two countries but will also highlight the country's regional significance.

Locking horns with India

Cancellation of secretary level talks between the two nations resulted in political embarrassment at a global level and any future talks will be marred by continued violations along the Line of Control (LoC). Handing over of dossiers to UN showing involvement of Indian intelligence agencies in the country has formalized Pakistan's grievances.

Mustering western support

Successful talks with the US President reaffirmed US support on wide ranging issues from defence cooperation to climate change. A firm stance adopted by the Pakistani side for maintenance of a minimum credible nuclear deterrent against US desires, has however raised concerns in a few quarters.

Striving for Afghan-Taliban peace

Pakistan's continuous efforts for brokering peace between Talibans and the Afghan government dealt with a heavy blow, after the announcement that Mullah Omer, the elusive supreme leader of the Islamist militant movement, had died two years ago in Pakistan.

March, 2015	April, 2015	April, 2015	August, 2015	October, 2015	October, 2015
MQM headquarters in Karachi raided	Chinese President's visit: accord on $46bn CPEC	Parliament votes not to join the Saudi-led military intervention in Yemen	Indian and Pakistani troops traded heavy gunfire and mortar rounds for a seventh straight day along	Pakistan presents dossiers to UN evidencing Indian involvement in fomenting unrest in Pakistan	PM Nawaz arrives in USA on an official visit. This is followed by COAS Raheel's visit to USA.

Beginning of Glad Tidings

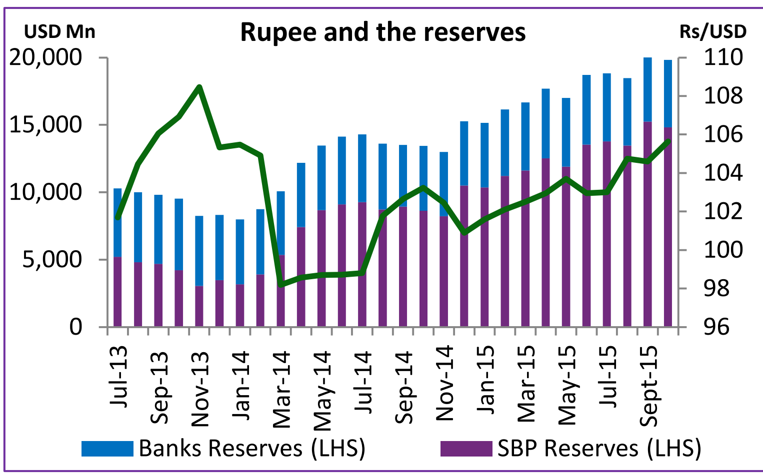
Light on the horizon - China–Pakistan Economic Corridor (CPEC)

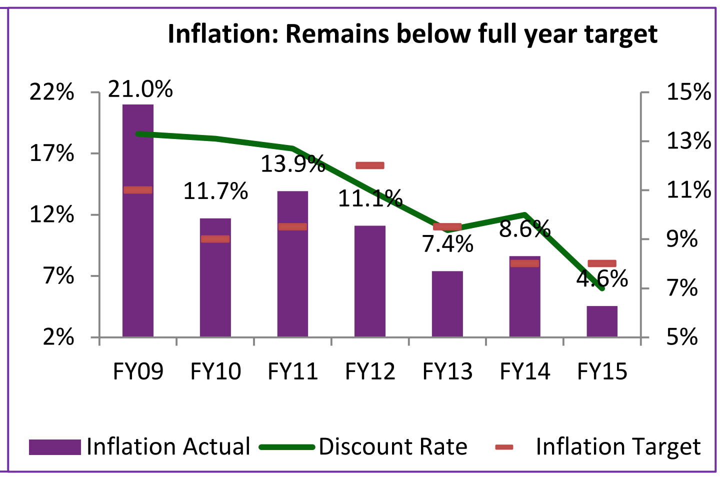
China and Pakistan have signed MOUs for projects worth USD46 billion under CPEC. Initial prioritized pipeline of investments under CPEC envisages an overall investment of USD 33.8 billion in energy and USD 10.6 billion in transport infrastructure. With the implementation of bulk of these projects during the next three years, an estimated 13,880 MW of electricity will be added to the national grid. Local component of this investment is expected to bolster GDP growth by 0.5pp, resulting in effectively taking GDP growth rate near 6% in three years' time. With energy woes on the backburner after implementation of these projects, industrial growth is expected to increase sharply along with increased output from existing industries.

In USD bn		Major Investments	Domestic Share	
Coal	7560 MW	8.8	20%	1.8
Wind	200 MW	0.5	20%	0.1
Hydel	1590 MW	4.2	50%	2.1
Solar	1000 MW	1.7	0%	
Second phase	6445 MW	9.5	20%	1.9
Road		5.9	80%	4.7
Rail		3.7	50%	1.8
Mass Transit in Lahore		1.6	50%	0.8
Gwadar Port		0.7	50%	0.3
Total		**45.7**		**18.1**

IMF program-Time to say good-bye?

IMF's Extended Fund Facility (EFF), a USD 6.6billion program providing the country with much needed inflow of funds in a period of thirty six months started from September 2013. Pakistan has completed nine successful reviews under the program to date. The program is expected to end by August 2016 with scheduled inflow of three more tranches after the current expected tranche in December 2015. The conditions of this facility have made Pakistan implement much needed economic reforms in tax collection and energy tariff rationalization. Steady inflow of tranches from IMF along with privatization proceeds and issuance of Eurobonds took forex reserves to record high of USD 20 billion Another IMF program next year, if needed, will keep the economy in check as key parameters laid down by the lender will have to be followed to ensure program continuance. It will also be a source of comfort for other lending agencies.



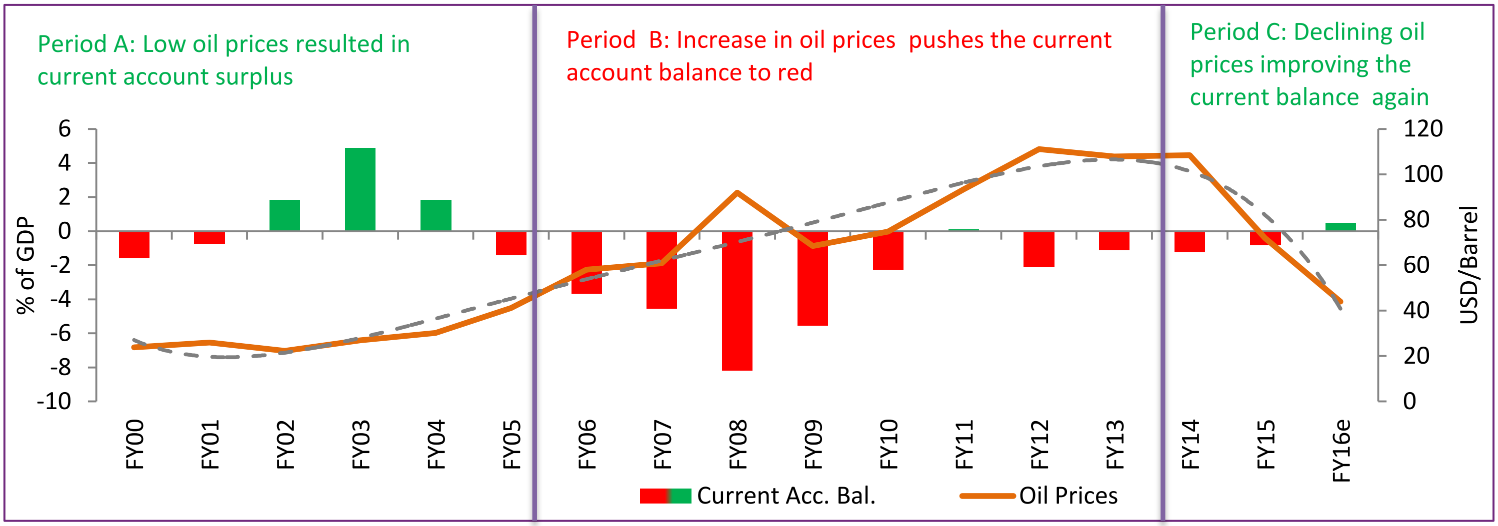


Inflation- Reversal in sight

A staggering decline has been witnessed in inflation with 5MFY16 inflation at 1.86%YoY compared to 6.45% during the corresponding period last year. Apart from oil price decline and slender increase in prices of food items, the high base effect from last year also contributed towards a muted number. The setting in of low base effect form Dec'15 onwards, expected monetary tightening in the US, domestic administrative adjustments in the form of gas tariff hike and mini-budget are all risk impinging on the full year 4-5% inflation outlook. Decline in inflation has resulted in a cumulative 350bps reduction in the discount rate since November 2014.

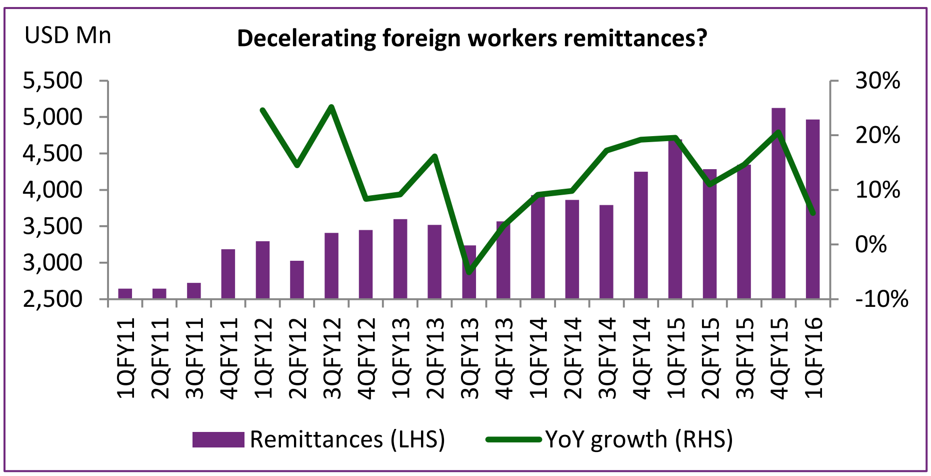
Oil prices on a wild ride

The oil price slump started at the beginning of FY15 and prices have declined by 65% since then. During FY16 oil prices have continued their downward momentum with a decline of 38% FYTD. Being a net importer of oil, Pakistan has emerged as major beneficiary of this slump. The current account balance posted a deficit of USD 532 million in 4MFY15 versus. USD 1.89 billion last year; a massive decline of 72%YoY. Unfortunately benefit of 15% decline in import due to fall in crude price was partially eroded by 11% decline in exports. The government is ramping up its efforts to provide stimulus to the exporting sectors and a textile package is expected to be announced soon.



Remittances to hit the brake?

Pakistan receives most of its remittances from GCC countries (60%) followed by USA and UK. With the decline in oil prices and consequently wealth of GCC countries, remittances could be adversely affected as the oil producing GCC countries scale back their spending programs. Remittances during 5MFY16 from expatriates abroad have grown by 7.5 %YoY to USD 8.1 billion. Though these foreign receipts are higher than last year, the growth rate for 5MFY16 is one of the lowest in similar period of the last five years, showing some sort of deceleration.



Fiscal Front- Plugging the slippage

After posting a fiscal deficit of 5.4% of GDP in FY15, the government is targeting a deficit of 4.3% of GDP during FY16. The government continues to increase its revenue base through measures in the form of super tax, introduction of Withholding Tax (WHT) on banking transactions, higher Capital Gains Tax (CGT) for non-filers of income tax, mini-budget worth PKR 40 billion to cover the revenue shortfall in 1QFY16.

The current tax to GDP ratio of 11% is expected to increase to 12.2% by year end. Government is eyeing a tax collection target of PKR 3.1 trillion for FY16 compared to PKR 2.58 trillion collected during FY15. Pakistan's budget deficit escalated to 1.2 percent of GDP or PKR 337 billion during 1QFY16, mainly because of revenue shortfall being faced by the FBR. The revenue slippage has however been plugged through a mini-budget in the form of increasing taxes aimed at generating Rs. 40 billion.

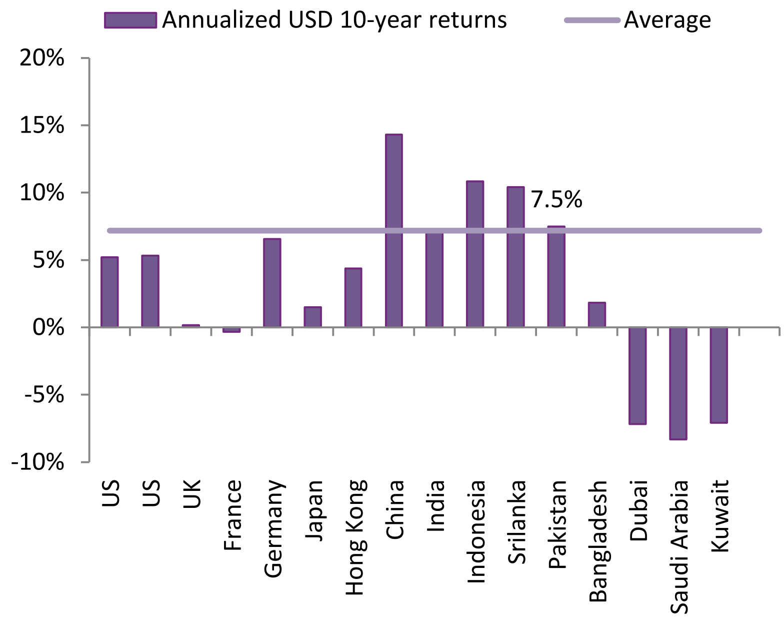
A Bet Worth Taking

Pakistani Market a standout among regional economies

The local bourse has yielded an annualized USD return of 7.5% over the last 10 years which fares better than most of its regional peers.

Moreover, with an average annual return of 3.3% for 16 countries, the KSE100 Index has produced more than twice the average return!

KSE -100 Index continues to shine along with regional economies



Halfway there – Democracy to thrive!

The year 2015 saw the incumbent PML-N government complete two and a half years of its tenure. The journey has not been smooth by any means, with the government receiving heavy opposition from PTI over the legitimacy of the 2013 elections. Nevertheless, the PML-N government has gathered strong support and withstood the test of re-elections in major constituencies signifying that the democratic government is well on its way to complete its five year tenure. Success of the incumbent government in the local body elections is also testimony to its strong support among voters.

Alluring asset class

The State Bank of Pakistan (SBP) continued its monetary easing in 2015 on the back of low oil prices, muted inflation and improving foreign reserves. The SBP introduced a change to its monetary management system where a 'policy rate' was introduced which would serve as the benchmark interest rate for the economy and is set 50 basis points below the discount rate (SBP's reverse repo rate). Effectively the benchmark interest rate has been reduced from 9.5% to 6.0% during CY15. With lower policy rate leading to dwindling returns in fixed income instruments and global economic slowdown and stronger dollar resulting into depressed commodity prices, equities remain the attractive asset class for the average investor.

Chinese investment a stimulus

Projects under the CPEC would also provide Pakistan with energy and telecommunications infrastructure and are expected to be completed in several years. The investment would benefit various sectors of the equity market directly such as cement, transport and construction sectors.

Laggard oil pulling down inflation

With oil prices hovering in range of USD 40-50/bbl, inflation and import bill remain in check. Brent crude has declined by more than 65% since July 2014 lowering inflation as Pakistan is a major importer of crude oil. Not only does this encourage spending but also creates room for accommodative monetary policy as has been witnessed in the last two years. With inflationary pressure likely to remain low, interest rates can be expected to stay low which always goes in favor with the equities as it becomes the comparatively attractive asset class. The spillover effect in terms of low power generation and transport costs would benefit major industries across the board and increase corporate profitability

Superior earnings yield

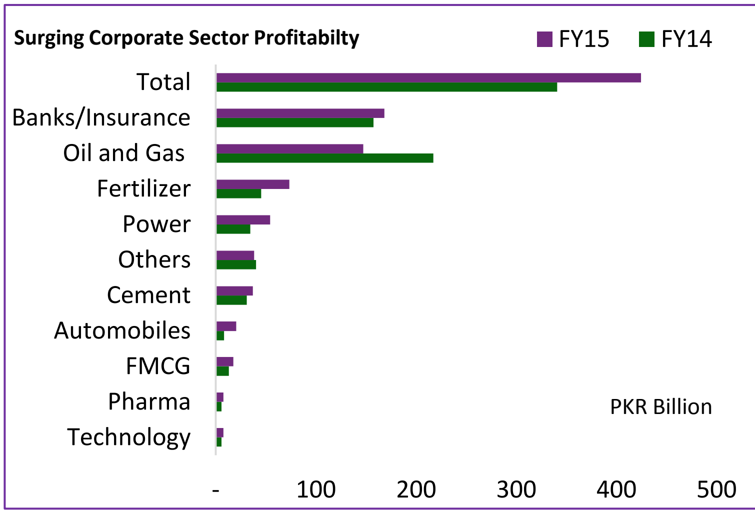
The 2016 earnings yield for the KSE100 Index is at 12% which offers a decent spread over the T-Bill yield of 6.5%. The 2016 forward dividend yield alone is 6.2% which is comparable to the policy rate of 6%. Keeping in mind the potential growth that the market has to offer, realized returns can expected to be even higher!

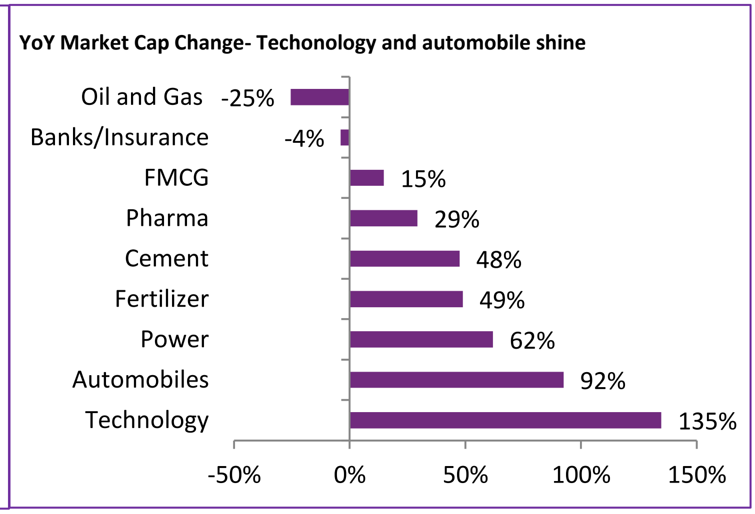
The case of reclassification- From frontier to emerging markets

In one of its recent review, MSCI mentioned that Pakistan could potentially be reclassified into the Emerging Markets in 2016, citing better liquidity, growth and improved regulatory oversight as the key reasons for reclassification. A reclassification will improve the outlook of Pakistan's stock market and improve its exposure to foreign intuitional investors. Global institutional investment firms consider benchmarks like MSCI when evaluating global investment opportunities.

Surging corporate sector profitability

Profitability of KSE-100 companies (excluding oil and gas sectors) grew by 25% to PKR. 424 billion in FY15 compared to PKR. 341 billion in the previous year. The global slump in oil prices dented the profitability of the oil and gas sector by 32%. However, profitability of automobiles and cements sector increased by 144% and 19% as they enjoyed the benefits of a decline in commodity prices and resultant raw material costs.

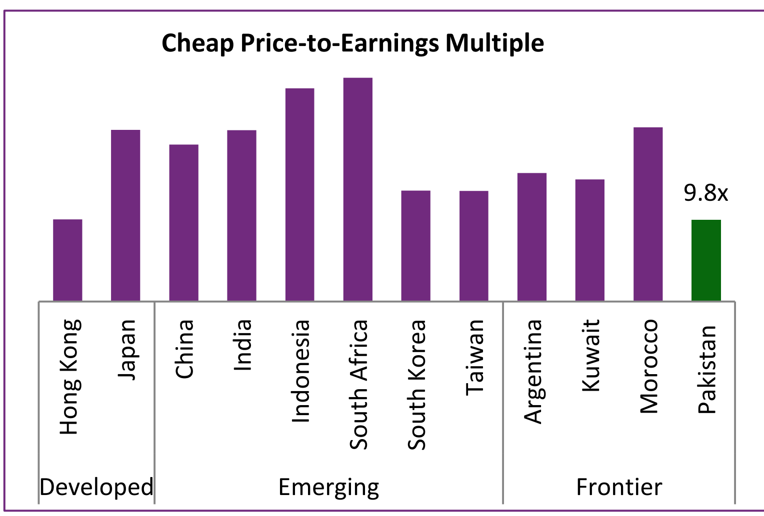


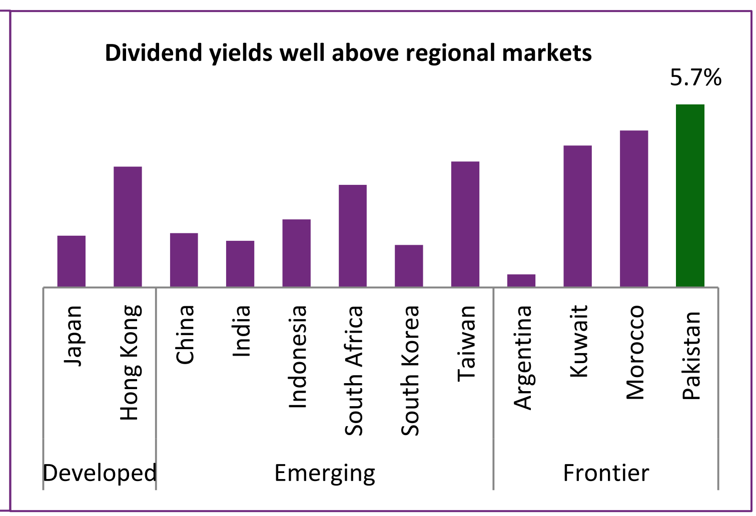


Attractive valuations

<u>Price-to-Earnings multiple:</u> KSE-100 index is attractive based on its cheap multiples and strong fundamentals. The market currently trades at a trailing PE multiple of 9.8x, a discount from the MSCI Frontier markets 10.54x and MSCI Emerging market 13.0x PE.

<u>Dividend Yield</u>: KSE- 100 has also maintained a higher trailing dividend yield of 5.7% as compared to the 4.14% yield of MSCI Frontier markets and 2.82% yield of MSCI Emerging markets

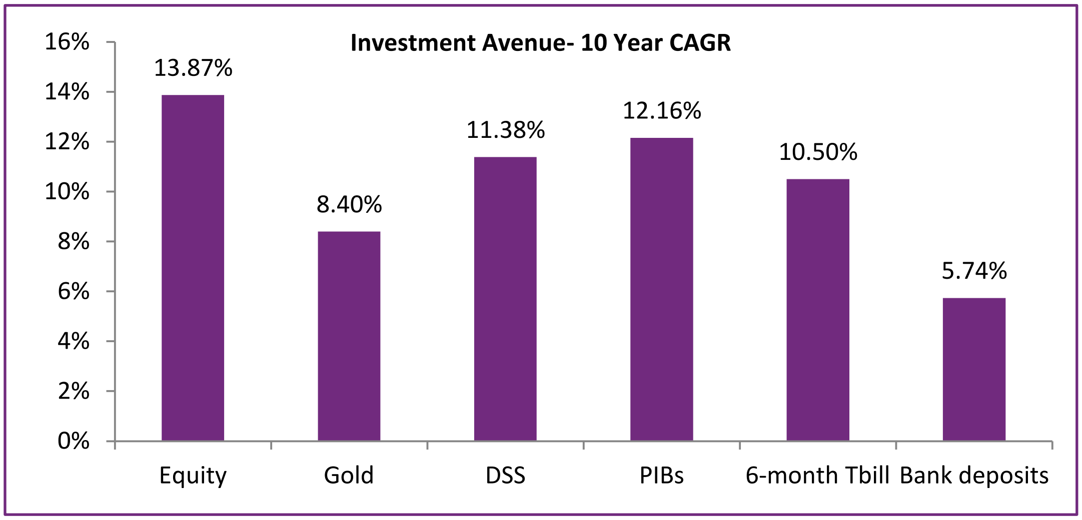




Equity- The Best Bet in the Long Run

Equity investments are prone to short term market volatilities but the equity markets are often the best investment avenue for investors with a long term view. When we compare available investment alternatives as shown in the table below, we see that the KSE-100 provided the highest investment return over the last ten years, an annual compounded return of 14%.

	Investment Avenues						Inflation
	Equity (KSE-100)	Gold	Defense Saving	10 Year Gov bonds	6-month T-bill	Bank deposits	
CY06	5%	23%	10%	10%	8.89%	3%	7.92%
CY07	40%	31%	10%	10%	9.19%	4%	7.58%
CY08	-58%	6%	11%	14%	11.64%	6%	20.15%
CY09	60%	24%	11%	13%	12.54%	6%	13.94%
CY10	28%	30%	12%	13%	12.62%	6%	14.77%
CY11	-6%	10%	13%	14%	13.31%	6%	12.05%
CY12	49%	7%	12%	13%	11.04%	5%	9.72%
CY13	49%	-28%	11%	12%	6.94%	7%	7.68%
CY14	27%	-2%	12%	13%	9.92%	7%	7.23%
CY15TD	7%	-4%	9%	9%	7.26%	7%	2.45%
CAGR	13.87%	8.40%	11.38%	12.16%	10.50%	5.74%	10.43%



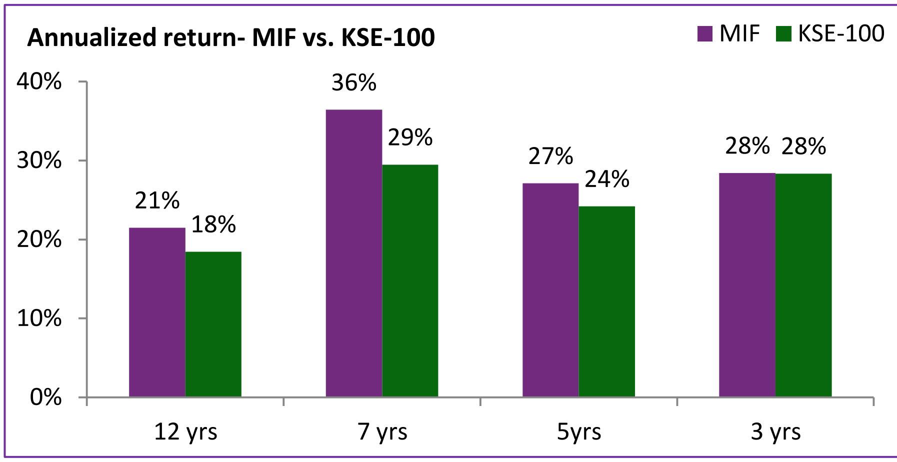
Meezan Islamic Fund – From Legend to Legacy

Meezan Islamic Fund (MIF) was launched in August 2003 as the first open-end mutual fund of Al Meezan. The objective of MIF is to invest in Sharia'h compliant equities while maximizing total return for investors by focusing on both capital gains and dividend income. Having completed 13 years of operations, MIF has to its credit the recognition of being the industry's largest private sector equity fund.

With current Assets under Management (AUMs) of over PKR 27 Billion, MIF has accomplished remarkable performance in a short span. It also won the Lipper award for the 'Best Fund' over 1, 2, 3 and 5 year categories for among the global Islamic funds for the year 2014. The Lipper Fund Awards are part of the Thomson Reuters Awards for Excellence.

Meezan Islamic Fund – Beating the market

Evaluating performance, MIF has predominantly outperformed not just industry's other equity funds, but its returns have outshined Pakistan's benchmark equity index of KSE-100 index. The graph below shows the Calendar Year (CY) annualized returns of MIF vs KSE-100 as of October 31, 2015 for the past 12,7,5, and 3 years.

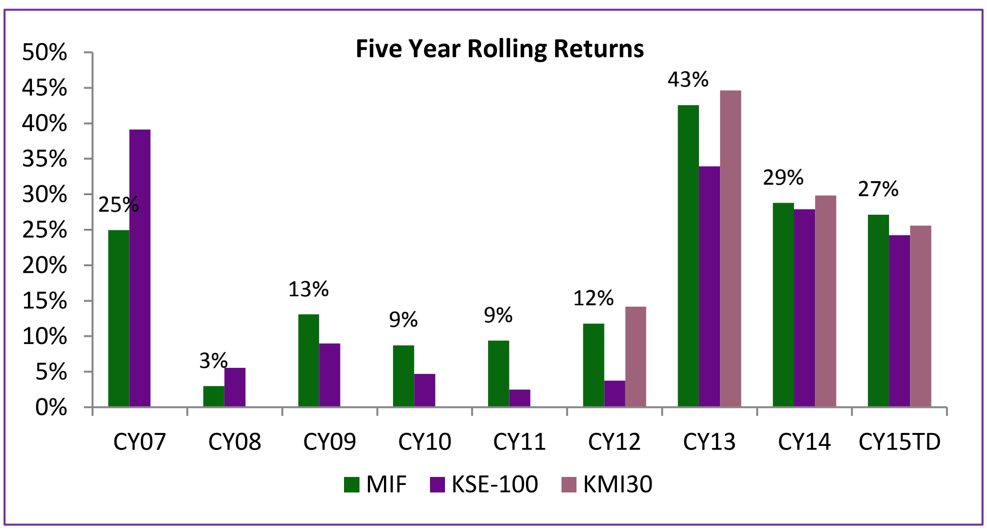


	Pak Rupees		Dollar Adjusted	
	MIF	KSE-100	MIF	KSE-100
12 yrs	21%	18%	15%	12%
7 yrs	36%	29%	31%	24%
5yrs	27%	24%	22%	19%
3 yrs	28%	28%	25%	25%

Compared to other viable investment avenues, equity has remained the desired investment avenue for many looking to invest over long time horizons and willing to withstand short to medium term volatility. It is worth noting from the chart above that MIF has consistently outperformed KSE-100 over the years. One of the reasons for this is that while KSE-100 is exposed to the market volatilities of all the companies in the index, MIF invests in only Shariah-compliant companies that resist market swings better.

Long term horizon – The Winning Strategy

Equity markets are usually volatile in the short run and Pakistani market even more so. This often strains the investors return potential. However, the stock market is resilient in the long run, and beats the short term volatilities. Furthermore, equity investments are subject to Capital Gains Tax (CGT), which is exempted for investors with a holding period of four years or more – Adding to the benefits of long term horizon. To justify the point made above, let's have a look at the graph below. The graph below shows five year rolling return of our fund, MIF and the local indexes. We see that the five year annual compounded return of MIF beats the return for that period of the local bourse for most of the years.



Grow your investment in Meezan Islamic Fund (MIF)

Assuming an investor made an initial investment of PKR 100,000 in MIF on the day the fund was launched and did not make any withdrawals, his investment would now have grown to PKR. 1,079,264 (as on October 31, 2015) earning him an annualized return of 21.5%. Over medium to long term, investment in equity is the best option to gain high returns. Even during less favorable market conditions, the research and fund management team at Al Meezan Investments ensures that the best equity picks are included in MIF which help its in sustaining its consistently high returns against all industry peers and available investment avenues.

End of the Easing Era

Fixed Income: Have the Interest Rates Bottomed Out Yet?

Over the last four and a half fiscal years, the SBP policy rate has been brought down by 750bps (more than halved) and currently stands at 6.00%, on account of State Bank of Pakistan's (SBP) consistent monetary easing stance. The interest rates and yields in the economy therefore, have continuously declined which is clearly reflective in the reduced returns of various fixed income investment avenues.

Fall in oil prices in the international market since the first quarter of FY'15 served to be a major impetus in melting the inflation and create a wide real interest rate corridor, which coupled with other improving macroeconomic fundamentals like forex reserves, reduced budget deficits and improved tax collection, provided a cushion for the Central Bank to reduce the interest rates in order to stimulate the economy by attracting private sector investment.

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 (July2011)	Current Rates (December 2015)	Difference from July 2011
SBP Policy Rate	**14%**	**6.50%**	**-7.50%**
GoP Securities			
6- Months T-Bills	13.76%	6.37%	-7.390%
10-Year Pakistan Investment Bonds (PIBs)	14.07%	9.31%	-4.760%
Ijarah Sukuks (3 year)	14.00%	6.15%	-7.690%
Saving Schemes			
Special Saving Certificates - 3 years	14.00%	7.60%	-6.400%
Defense Saving Certificates - 10 years	13.55%	8.68%	-4.870%
Corporate Instruments			
TFCs (AA- rated and above; 2 to 8 Years)	14.50%	7.85%	-6.650%
Corporate Sukuks	15.70%	7.50%	-8.200%
Bank Placement AA Rated and above)	12.50%	6.00%	-6.500%

Changing Expectations Ahead

In the current economic environment, the money market had been bracing itself for another 50bps cut in the discount rate but conclusion of the IMF's tenth review played an important role in changing the market expectations towards status quo and the same materialized as well when the SBP kept the discount rate unchanged in its most recent bi-monthly MPS announced on November 21, 2015.

Rupee is expected to witness pressure going forward on expectations of monetary tightening by the US Fed resulting in appreciation of dollar. The current account deficit has contracted to USD 532 million during Jul-Oct FY'16 in comparison to USD 1.9 billion during the same period last year. 10.6% decline in exports however raises concern about sustainability of external account position. With the ending of a 'high base" period, inflation is expected to rebound but FY16 inflation is expected to remain in the range of 4-5%. Interest rates (SBP Policy Rate : 6.0%), which appear to have reached the trough, will also be determined by swings in commodities and agri product prices. Due to persistent weak demand for commodities as a result of global economic slowdown, prices are expected to remain weak, limiting the chances of an interest rate increase. Hence, in the current situation, the market appears to be concentrating around the expectation of status quo to be maintained in interest rates for at least 2HFY16.

Excess liquidity Still a Matter of Grave Concern for Islamic Financial Institutions

The Shariah compliant end of the money market has continued to grow at an impressive rate but the lack of investment avenues has also persisted side by side. The last Ijarah sukuk was issued by the government in June 2014 (that too at a discount of 200bps) post which almost a year and a half has elapsed without a fresh government paper auction for the Islamic market.

Moreover, five out of the seven running Ijarahs, amounting to PKR. 234 billion cumulatively, have matured during November 2015 (Ijarah IX-XIII). In order to prevent further liquidity influx in an already liquid Islamic market, the SBP carried out Bai Muajjal transactions mopping-up around PKR. 208 billion from the Islamic banking sector. However, the same facility was not made available for mutual funds due to which Islamic income mutual funds are expected to continue facing an excess liquidity issue which is also impacting the funds' returns.

The government is expected to issue new Ijarah Sukuks but the timing for the same is uncertain. Hopefully, issuance of these new Sukuks will be carried out by the government before the end of CY'15 which shall help the Islamic funds to deploy their excess liquidity and improve the funds' returns.

Massive cash injection for conventional financial Institutions

Persistent liquidity shortages have emerged in the interbank market as a result of heavy government borrowings from the central bank. Government borrowings from scheduled banks have increased by Rs. 595 billion since the start of the year compared to Rs. 309 billion last year. To curb the liquidity shortfall SBP has injected a cumulative amount of Rs. 27 trillion since the start of the fiscal year.

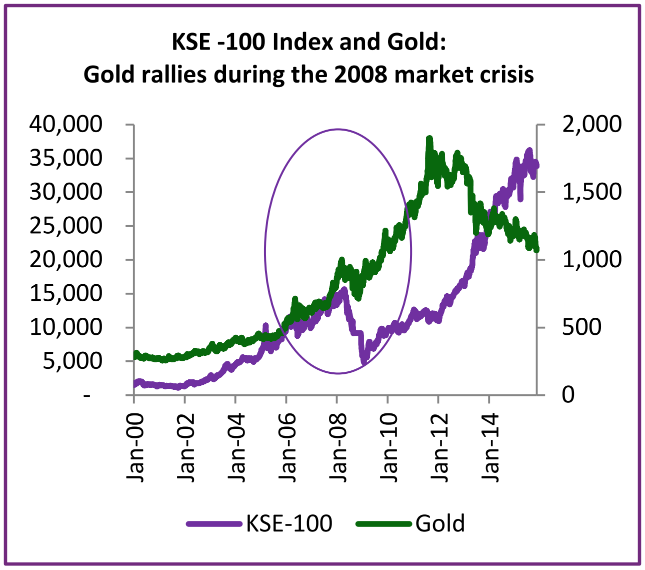
Gold: Safeguarding wealth

Gold as "Safe Haven"

Gold is largely viewed as an attractive investment vehicle due to its unique characteristics and ability to provide protection against macroeconomic uncertainties and help investors safeguard their wealth in times of distress.

During period of inflation, the metal serves as a hedge as the general rise in price levels also increases the price of gold, thereby retaining or increasing investors' purchasing power. Moreover during times of falling value of currency, investors tend to seek alternate investment avenues to protect their wealth, increasing the demand for gold

What makes it even more suitable for investment purposes is its low correlation with other investment avenues such as equities, fixed income securities and currencies. This feature enables asset managers to include gold in their portfolios and provide a cushion to investors by mitigating portfolio losses when other asset classes underperform.



Meezan Gold Fund

Al Meezan Investment Management has recently taken the initiative to allow investors to enjoy this "safe haven" status by launching Meezan Gold Fund (MGF). MGF is the country's first Shariah compliant commodity fund which tracks price performance of gold by trading in physically deliverable gold based contracts available on Pakistan Mercantile Exchange (PMEX).

In addition to the general benefits of taking exposure to gold, MGF has in store a number of added advantages to investors which otherwise are not present with direct investing. Normally, potential investors face a genuine challenge before investing in gold, as just a single tola is currently hovering above Rs 40,000. MGF eliminates this challenge and allows investors to invest with a nominal amount of Rs 5,000, and subsequently increase their investment with Rs 1,000.

Trading in physical gold entails storage costs and spurs safety concerns. With MGF, these concerns are taken care of as investors' holdings will be laying safe and secure in PMEX's vaults. The ease of entry and exit from the fund is another major benefit why investors should opt for investing in MGF as opposed to investing directly, especially with no back-end load. Finally, MGF enables investors to make use of Systematic Investment Plan (SIP), whereby they can increase their exposure to gold through small but regular investments into the fund.

Outlook

The case for investing in gold is strong based on its use as a "store" of wealth and a hedge against inflation; with rising inflation, gold typically appreciates. It also serves as an ideal diversifying tool based on its low correlation to stocks, bonds and real estate. With a meaningful amount of an investor's portfolio invested in gold, it protect against the falling value of equity stocks. When the stock market as a whole is falling in value, the chances are high that the price of gold will be increasing.

Path Ahead

Make money on rough tides

Looking back at Year 2015; patchy times met serenity and the year fled by a swing. However, the positives fared wholesomely well for the country, which is on the track of recovery.

Entering the New Year, we look back at nearly half a decade where KSE-100 index posted a return of 24% (5-year annualized return) whereas the discount rate stood at 10%. With discount rate down to single digits at 6%, returns on fixed income instruments have gone down. With the volatility in international markets led by anticipation of a US rate hike, weakening of commodity markets and dryness in foreign equity flows, we see returns on equity market to be around 15%.

2011-2015	**Future: What to expect?**
KSE-100 return (5yr annualized): **24%** Discount rate (average) **10%**	Discount rate down to 42-year low at 6% **KSE-100 returns** (Medium term) **15%**

Equity - Still a bet worth taking in the long run

Why invest in Equity?

- Equities have outpaced returns on other investment classes
- History of quick recovery and reversal
- Provides high potential long-term returns
- Recent correction in market has opened up valuation gaps and provide and provide a good entry point

Outlook ahead

- The stock market remains resilient despite continued foreign selling
- With improving economic fundamentals, strong corporate profitability expectations, the market is expected to gain again
- In the current low interest rate environment, equities still appear to be a good alternative for higher returns

Invest with Al-Meezan

- Our equity mutual funds which have once again shown healthy return over calendar year 2015
- Meezan Islamic Fund (MIF) has posted a return of 12.45% CYTD 2015 (upto Dec 14, 2015)
- Investors with a longer-term investment horizon and low need for current income are advised to take/increase exposure to equities

Al Meezan Investment Management Ltd. (Management Quality Rating- AM2+ (Rating date: Dec 3, 2014)

Investors need to focus more on long-term plans that yield substantial returns through every boom and bust cycle. Moreover, a greater focus on research and analysis and prudent fund management aimed at reducing risk and protecting investments should be the priority. For such tailored and personalized investment advisory and allocation services, investors are advised to approach our professional investment advisors. Just dial 0800- HALAL (42525) or SMS "INVEST" to 6655, and one of our representatives will contact you promptly.