Al Meezan Investment Management Ltd.
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AM1
Rating by VIS & PACRA

**January 2022**

# GROWTH AMIDST HEADWINDS

## INSIDE HIGHLIGHTS

## Table of Content:

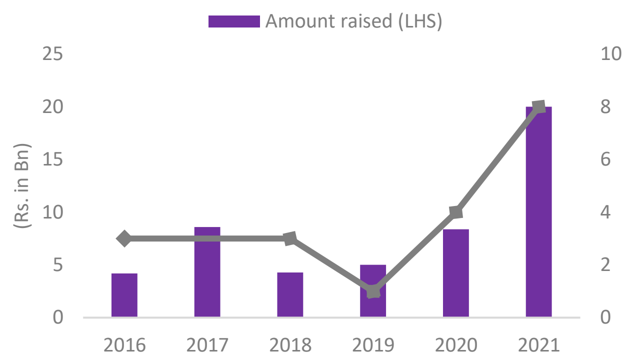
# Top Themes for 2022:

## Development of capital markets, Booming startups, Exports growth, Tourism to unlock potential and Roshan digital account

### Stock markets development to bear fruits

Following government's keen focus on developing capital markets, Pakistan's main bourse has seen a significant increase in public listings. Number of new listings grew by 2x in CY21 compared to CY20. Additionally, PSX's recent launch GEM board can also be expected to positively contribute towards development of capital market. Furthermore, with market capitalization/GDP of 14% (as against over 100% for our neighbor India), capital market expansion and its development can be expected to remain one of Government's top priority in future.

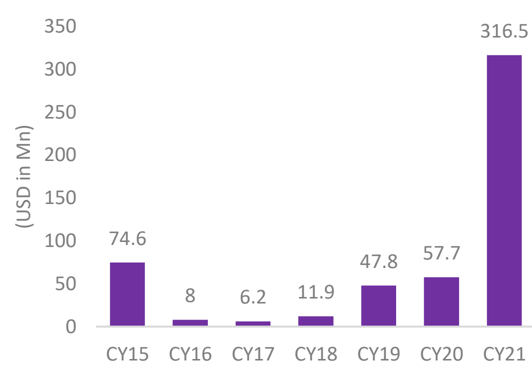
### Number of IPOs and amount raised




### Booming Pakistani Startup Ecosystem

With major economies of the world shifting their focus on technology and innovation led growth, GoP has taken steps to facilitate and promote the innovative startup culture in Pakistan like allowing startups to avail convertible loans which weren't allowed previously. As a result, positives have started to reflect in numbers as Pakistani start-ups have been able to raise funding in excess of USD 300 Mn in calendar year 2021 against total of USD 206 Mn raised in last 6 years from 2015 to 2020. In December 2021 alone, 8 Pakistani startups have raised USD 45.5Mn in various funding rounds. If this trend persists, country's FDI and overall economic activity can be positively impacted going forward.

### Foreign Investment in Pakistani startups




*Source: Bloomberg, Crunchbase*

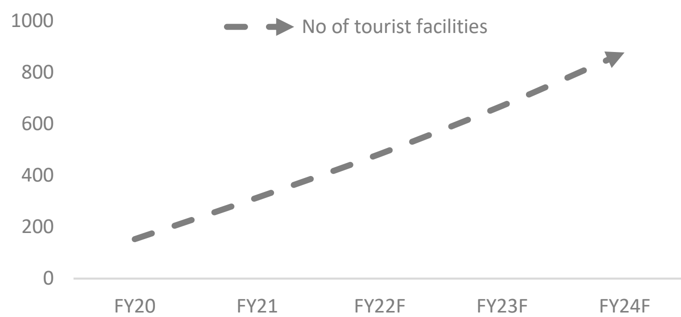
## Export growth & diversification to remain the focus

In-order to ensure sustainable economic growth the government aims to achieve USD 38 Bn export target by FY23 through export diversification (in the past textile segment has accounted for ~60% of the total goods exports) as well as offering multitude incentives to export related industry. On the export diversification front, the government intends to achieve USD 5 Bn export target from IT sector by FY23 (a compound annual growth rate of 53% vs 26% compound annual growth rate achieved by the government in its tenor). Furthermore, the government has also recently approved an auto policy aimed at making the country a hub of automobile export through offering numerous incentives to the OEMs.

## Tourism to unlock potential for Pakistan

Government aims to tap into the trillion-dollar global tourism industry by capitalizing on the scenic beautiful landscapes of the country. To extend that purpose, recently the government has inaugurated an international airport in Skardu. This recent initiative (and others to follow) can be expected to have multitude of positive economic implication and lift the standard of living of the people.

### Tourism facilities

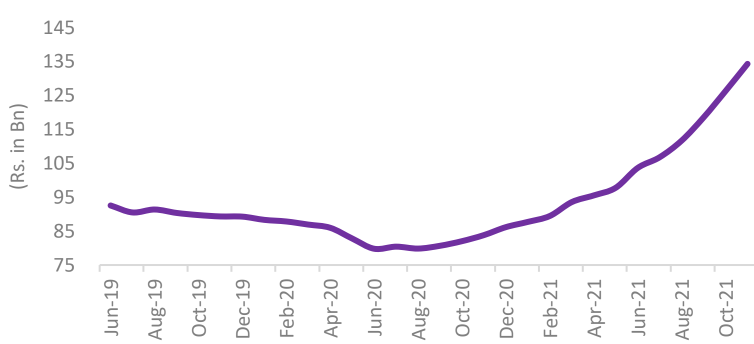



*Source: Budget FY22*

## Construction sector to remain key:

One of the biggest sectors in Pakistan, the cement industry employs a sizable chunk of the country's total labor force. Although officially it contributes about 2.5% to the annual GDP, many experts believe that its actual effect is much larger given that it also stimulates over 42 additional sectors including sanitary, steel, glass, bricks etc. The sector can be expected to remain at forefront of government's focus as it tries to revitalize the economy.

### Housing Finance

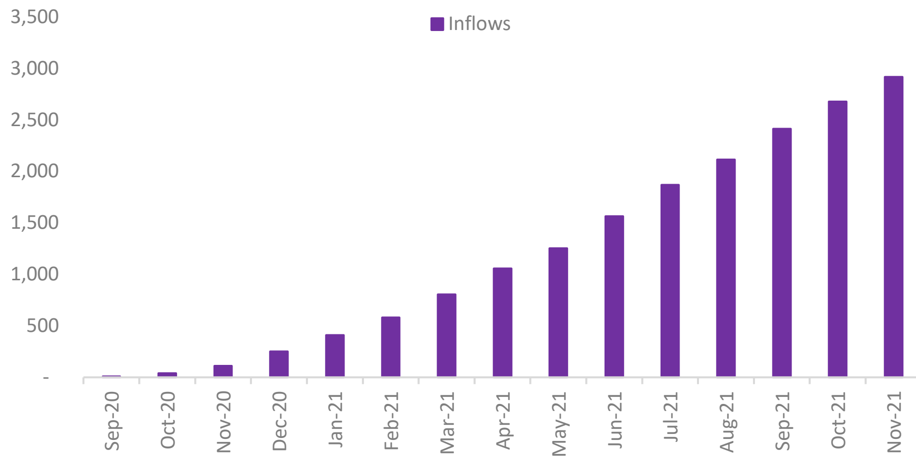



*Source: SBP*

## Roshan Digital Account (RDA) – Momentum to continue:

RDA has proved to be a hugely successful initiative of the present government, growing by 87% since the start of the fiscal year. RDA along with Roshan Apni Car and Roshan Apna Ghar can be expected to not only have a positive impact on remittance inflows but can also be expected to increase economic activity in the country.

### Roshan Digital Account Flows (USD Mn)




*Source: SBP*

# Commodity Prices Boom: Settling Down

**Commodity prices have started easing off; courtesy of normalized demand along with improvement in global supply chain.**

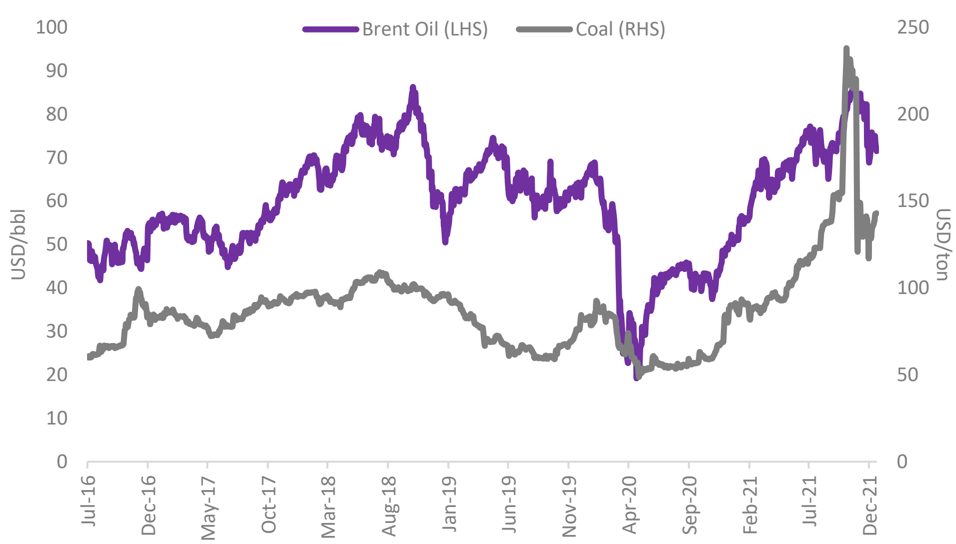
### Oil: (Used in: Power, Chemical and Transport industry)

Oil prices began to cool down from its recent high of USD 86.4 in October 2021 amid fears of Omicron denting demand and a looming oversupply. International Energy Agency (IEA), in its recent report, mentioned that the surge in COVID-19 cases was set to temporarily slow the recovery in global oil demand, but the impact of the Omicron variant would likely be more muted than previous waves and would not upend the current demand recovery.

### Coal: (Used in: Power and Cement industry)

Coal prices, which touched its historic high of USD 238/ton in Oct 21, suffered a massive falloff of ~51% to USD 116/ton in Dec 21 as the Chinese government put price control and regulation on dirty power-generation fuel.

**Oil & Coal reversing previous gains amid controls**



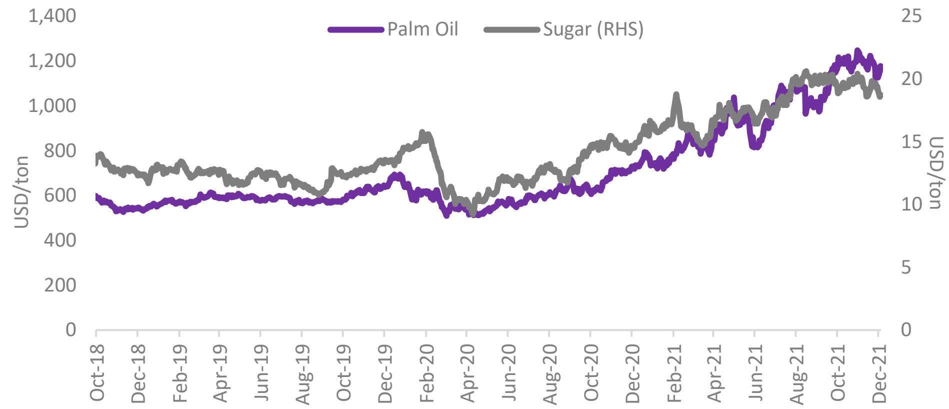

### Palm Oil: (Used in: Food industry)

Palm oil prices have been stable during the past two quarters owing to positive news on this season's outlook. The previous season saw production shortfalls due to poor weather in South America (soybeans) and East Asia (palm oil) amid strong soybean demand in China.

### Sugar: (Used in: Food industry)

Sugar prices have remained range bound from USD 18.50 to USD20.50 amid concerns over dry weather in top producer, Brazil, and slowing exports from India underpinning prices which is capped by Omicron induced fears

### Consumables: new highs amid supply constraints



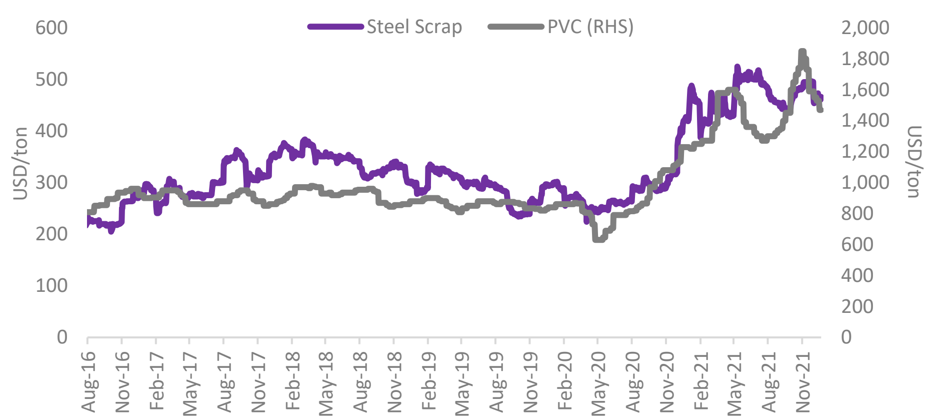

### Steel Scrap: (Used in: Construction and Auto industry)

On the back of elevated demand and supply chain disruptions (port closures and availability of containers), steel scrap prices, reached a high of USD525/ton in May 2021. However, since June 2021, reduction in steel production by China in order to meet zero-growth targets for the year has resulted in steel scrap prices sliding down from its peak to USD467/ton by December 2021.

### PVC: (Used in: Construction industry)

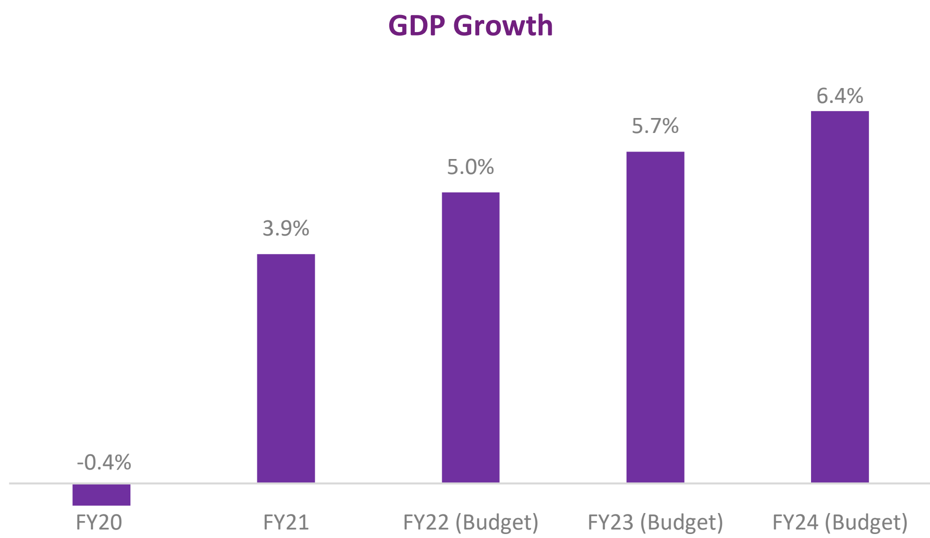
Fueled by turnaround in global consumer demand, international plant maintenances and production breakdowns in USA due to unfavorable weather conditions, PVC prices peaked to USD1,850/ton in Nov 2021. However, as plants are resuming operations, PVC prices have started to normalize and have reached USD1,470/ton by December 2021.

### Construction material: Stimulus packages and lockdown behind the upbeat



# Economy: On path to sustainable growth

After witnessing negative GDP growth in FY20 for the first time in decades, mainly due to coronavirus pandemic, Pakistan's economy saw a sharp recovery with a GDP growth of 3.9% in FY21. The growth was primarily led by the growth in industrial and services sectors of 3.6% and 4.4%, respectively. The growth further reflected monetary and fiscal stimulus provided by the government during COVID-19. Going forward, the government expects GDP to carry its upward momentum to 5% in FY22.



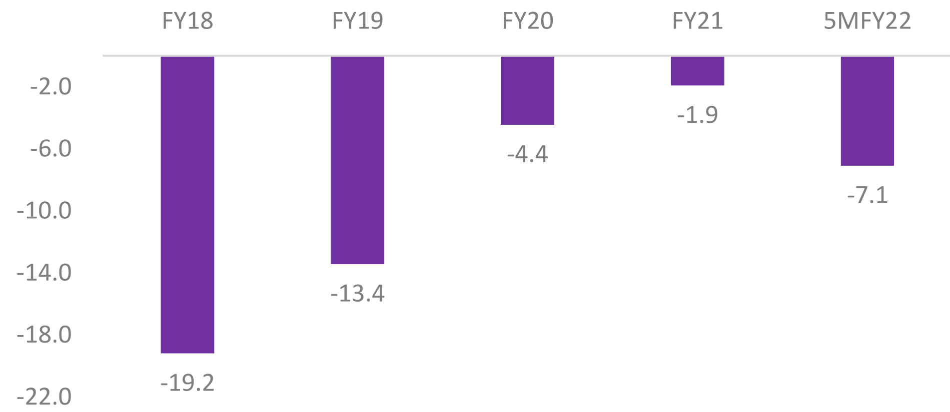

### Fiscal deficit: In the right direction

In FY21, fiscal deficit declined by 1% YoY to 7.1% of GDP as compared to 8.1% in the same period last year, largely on account of 10% YoY improvement in total revenue. During FY21, FBR surpassed its revenue target as actual collection clocked in at PKR4,732bn depicting a YoY growth of 18%. In the ongoing fiscal year government expects primary deficit of 0.7% by introducing measures that will increase tax collection by broadening tax base, eliminating subsidies & exemptions, and curtailing current expenditure. The above measure has started bearing fruits with 1QFY22 primary surplus clocking in at 0.3% and 1HFY22 FBR collection exceeding budgeted targets and growing by 32% YoY.

### Current Account Deficit: To remain elevated

On the back of significant growth in worker's remittances (27% YoY) in FY21, Current Account Deficit (CAD) had continued to improve. Due to COVID-19 related travel restrictions, use of unofficial channels such as hawala saw a significant decline. Furthermore, government measures in form of Roshan Digital Account facilitated remittances through official channels. However, FY22 has seen CAD soar on the back of elevated international commodity prices, elevated imports of COVID-19 vaccine and higher machinery imports aimed at capacity enhancement of the economy. While the existing market determined exchange rate is expected to control CAD going forward, government is taking additional measures to curb CAD (imposition of 100% cash margin on import of 525 items to discourage the import, levying regulatory duty on the import of luxurious items, improving export growth by diversifying across new markets and new products). Furthermore, as per SBP even with an elevated CAD Pakistan's external position is more than fully financed.

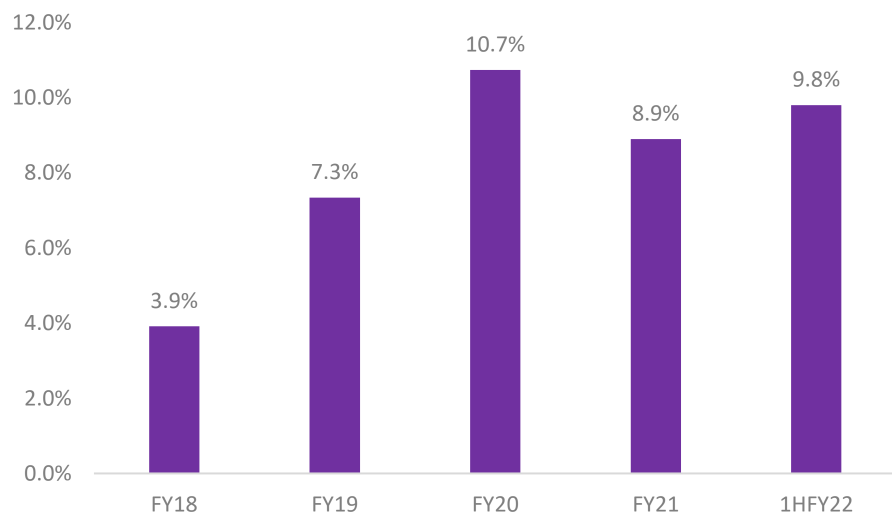
## Current account deficit (USD Bn)




## Monetary tightening on the cards

On account of high base effect, average inflation during FY21 clocked in at 8.9%. However, increase in energy tariff and rising food inflation on the back of commodity boom cycle has resulted in an uptick in inflation during 1HFY22 to 9.8%. Going forward, SBP expects average inflation during FY22 of 9%-11% and based on its inflation expectation it does not expect any further increase in policy rates in the near-term.

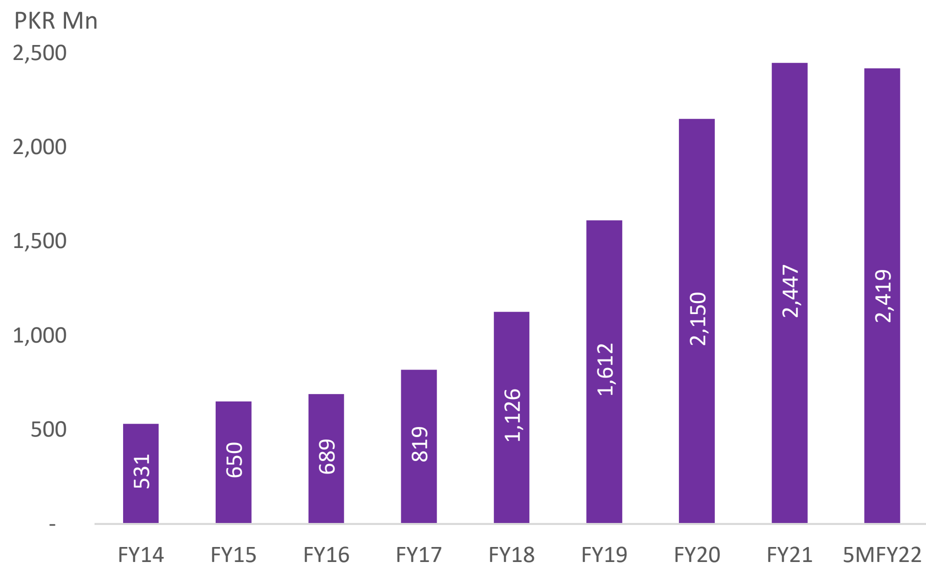
## CPI Inflation




## Circular Debt Management Plan

After reaching its the peak in FY21, circular debt accumulation has seen a significant decline on the back of government's measures (Sukuk issues; settlement with IPPs in exchange for lower future tariffs and hikes in base power tariff). Furthermore, the government is considering a settlement with E&P companies to reduce the stock of circular debt.

## Circular debt Flow (PKR Mn)



# Politics – Temperature to gradually rise

Political environment in Pakistan remained noisy in the past twelve months, with the Pakistan Democratic Movement (PDM), a multiparty alliance formed to overthrow the incumbent PTI government. PDM announced sit-ins and long marches since their inception, however due to the disunity among the participating parties, where many retraced their rhetoric against the Army, the alliance was not effective enough to disrupt the present political setup to a meaningful extent. PDM initially decided that its members would resign from the national and provincial assemblies in protest against the PTI government. However, as PPP backed away from the commitment which helped dilute any risks of a major political fallout.

During Mar-21, the Senate Elections took place for 48 seats where PTI emerged as the largest party in the Upper House with a total of 25 seats. However, PTI failed to win one of the hotly contested Islamabad seats (voting of which is done by the ministers of the National Assembly), where Hafeez Sheikh lost to Yousuf Raza Gilani. This raised question marks regarding the support of the National Assembly for the ruling party. However, the Government quickly settled concerns by calling a vote of confidence (which turned out to be successful) and appointing Hammad Azhar as the new FM. Additionally, Sadiq Sanjrani (whom PTI supported) defeated PDM's candidate for Senate Chairmanship. This way the government did well to restore confidence in its future and maintain power in both Houses of Parliament. At the same time, disunity within the PDM significantly weakened the opposition. Mr. Hammad Azhar was however later replaced by Mr. Shaukat Tarin as the Finance Minister brought on board particularly in order to renegotiate terms with the IMF and improve the economic growth.

During Aug-21, the US decided to conclude its mission in Afghanistan. The final US troops departed Afghanistan on 1st September, ceding the country to Taliban control ahead of US President Joe Biden's August 31 deadline. The withdrawal took place in the context of the Doha Agreement, which provided for the withdrawal of all foreign forces from Afghanistan, in return for a Taliban pledge to prevent terrorist groups from operating from inside Afghanistan, and future talks between the Taliban and the Afghan government for a permanent ceasefire.

Relations with the US thankfully are on the mend with the US inviting Pakistan for a democracy summit and also acknowledging Pakistan's role in the recent OIC extraordinary summit in stepping up to aid Afghanistan. Pakistan still is seen as a key player from Afghanistan's perspective, especially with the US remaining wary of ISIS's presence and with the ongoing humanitarian crisis in the war-torn country.

During Oct-21, the issue of Pandora Papers emerged but failed to create any major commotion. Meanwhile there were some delays with the appointment of key army personnel during the month, which were eventually resolved. The year culminated with political noise increasing day by day due to concerns over the economy (rising inflation, increasing utility prices, announcement of the mini budget) and the pass through of the SBP autonomy bill, a key IMF condition for the resumption of its USD 6 billion program.

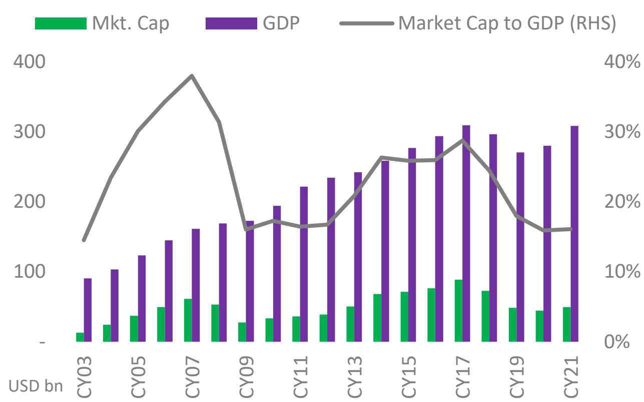
We believe going forward, domestic political climate will continue to remain heated as further local government elections are due in CY2022 and General Elections in CY2023 with headwinds still persisting on the economic front, especially after the pass through of the mini budget and further hike utility tariff and fuel price which will further stoke inflation. However, any improvement in economic readings, where we feel ease in international commodity prices will remain key and abate political pressures.

# Equity: Substantial room for market rerating!

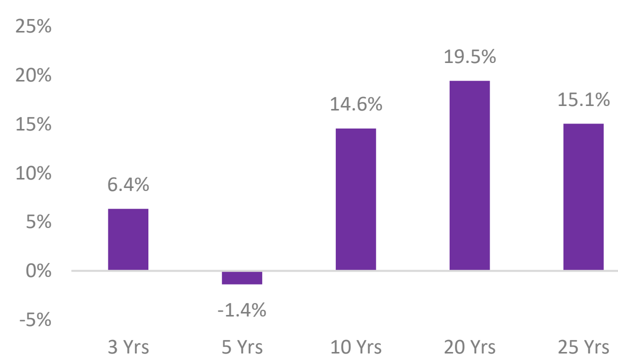
The stock market has traded in a narrow range during CY2021, ending the year largely flat, despite giving double digit return earlier in the year as macroeconomic concerns again came to the forefront in the second half of CY2021, along with hefty foreign selling on account of downgrade from MSCI Emerging Market (EM). With global commodity prices rising primarily due to supply chain challenges, the monthly import bill has touched its all-time high level in November 2021 while inflation has also reached in double digits. Although the pandemic will remain a critical factor in CY2022, the outlook for macroeconomic policy will likely be more crucial. It is expected that global economy will be shaped by how the support and stimulus enacted to combat the pandemic are withdrawn. While the economic recovery for Pakistan is expected to continue through CY2022, the easy gains in growth from rebounding activity are most likely behind us as policy tightening measures take hold. SBP will have to maintain the delicate balance between keeping inflation expectations anchored and allowing for a supportive environment for economic growth. As we look towards CY2022 and beyond, our long-term outlook for equities is optimistic amid a backdrop of strong earnings growth, attractive valuations and gradual structural adjustments.

With market valuations near trough level, another factor which makes us bullish on the market is the ratio of market capitalization to GDP ratio which as of December 2021 is at 14% (CY2021 average 16%) compared to its recent peak of 29% witnessed in CY2017. When comparing to its CY2007 peak level of around 38%, this ratio is now at one third of its 20-year peak. The reason for this ratio becoming attractive is that despite market capitalization being much lower compared to its peak level of May 2017, the nominal GDP annually in rupee terms has continued to grow by double digit on average. Thus, the market has ample room for catching up with the nominal GDP and in reaching with its average 20-year market capitalization to GDP ratio of 23%, with its historical peak ratio still far off.

**Market Capitalization to GDP ratio**

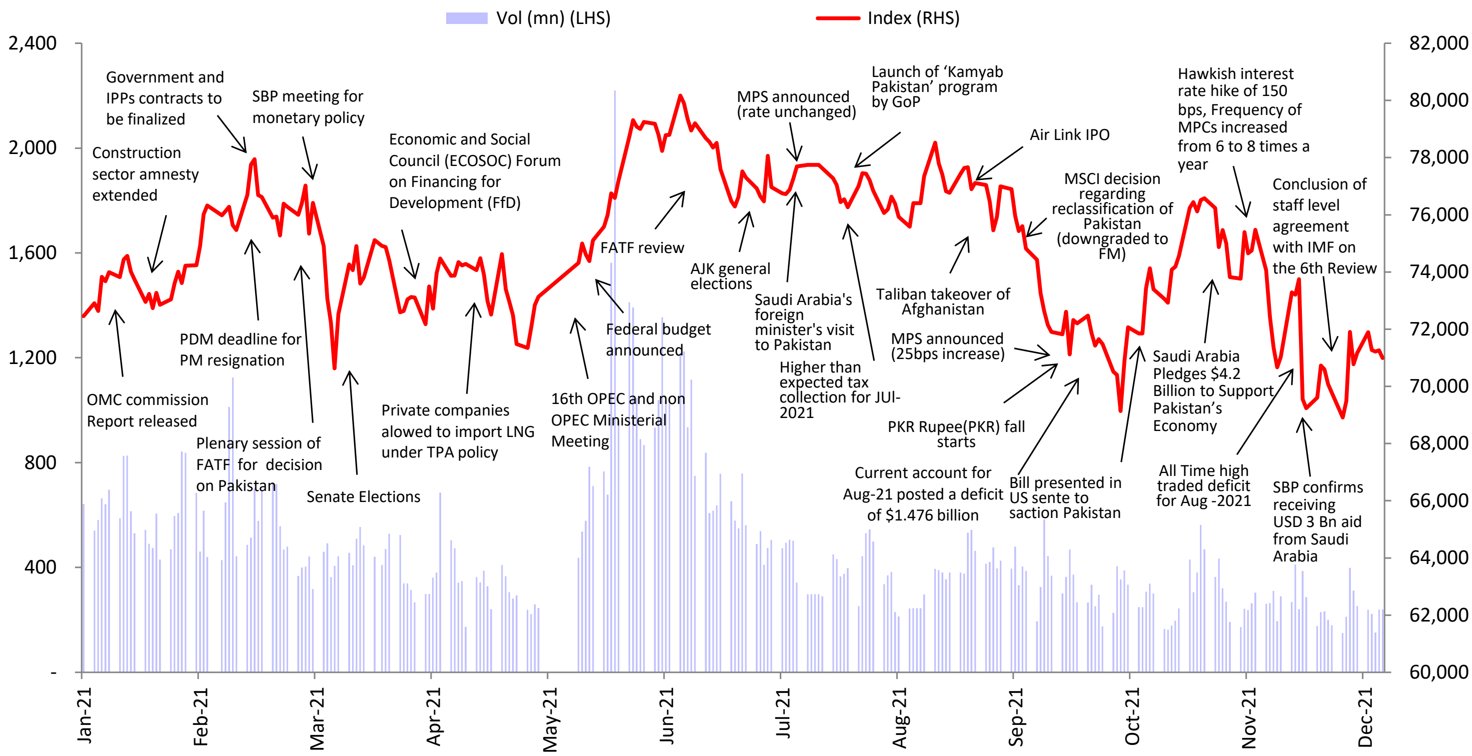



**KSE100 Index return over long time periods (CAGR)**




Overall, the last five years has seen huge underperformance of stock market versus other asset classes and its historical performance. Thus, the question arises whether one should exit the equities into safer options. Taking into context the heavy foreign selling and tough macroeconomic environment witnessed since last few years it is safe to say that worst seems to be behind us, given that foreign selling is likely to taper off in the coming period while the tough macro adjustments have also been largely taken. Pakistani market has earlier also witnessed a few years of underperformance in the past as well, however as things improved it has given above average return in the subsequent year making up for past underperformance. With market P/E at extremely attractive level of 4.9x compared to its long-term average P/E of 8.3x, we remain bullish on equities reverting to its long term CAGR return of 15.1% as witnessed in last 25 years. Our fundamental analysis favors an upward trajectory in the local equity market is based on the back of structural reforms, the entailing macroeconomic recovery, the re-rating of the market, and the mean reversion of the index in the near term. Political stability in the country and geopolitical events will remain catalysts for the performance of the stock market, and in that respect, we expect the political landscape to gradually move towards calmness and harmony.

**Event chart for CY2021 (KSE100 Index)**

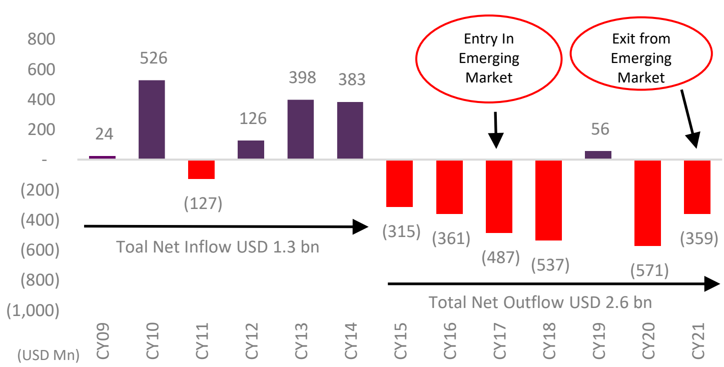


## Foreign selling: Is it near end?

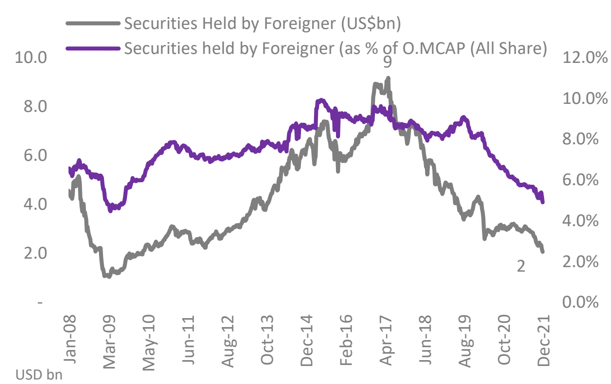
Persistent foreign selling has been the key reason attributable to the underperformance of PSX versus regional peers. Since the beginning of the year 2015, the market has witnessed a net sell of USD 2.6 bn by foreigners, which is sizable amount considering the limited appetite of the local players. Local individuals and institutions primarily countered the liquidations. Due to large and persistent sell-off, the market lagged the key regional peers and even those markets that were affected by country specific economic turmoil.

Pakistan's equity indices have largely underperformed the key emerging and frontier markets during the 5-year period marking foreign outflows. Markets such as Brazil, Egypt, Turkey, Sri Lanka and Vietnam have largely outperformed Pakistan during this period. Although, part of the reason for this underperformance can be attributable to the unnerving political and economic environment of Pakistan, however, some the countries referred have seen worse. For instance, there has been significant economic turmoil owing to currency crisis in Turkey and Sri Lanka recently mainly due to foreign exchange liabilities. However, despite this upheaval, the equity markets in respective countries managed to outperform that of Pakistan's and keep local investors happy. As a result of the persistent liquidations, foreign ownership in Pakistani equities has dropped to 5% from an approximate high of 10%. The value of holdings has consequently dropped from approximate USD 9bn to roughly USD 2bn, incorporating the devaluation of PKR into the values.

**Net foreign flows**




**Foreign ownership in PSX substantially down**

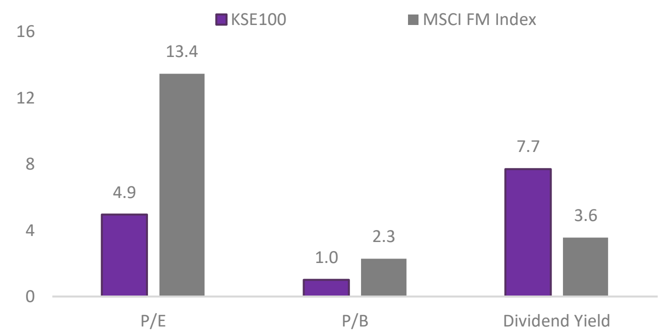



Going forward, we believe that the recent exit from MSCI EM was the last of the major resistance impeding movement of the index and marks an end to this dismal trend of foreign outflows. We believe that in absence of any major selling pressure, the market has a greater chance to show positive trend keeping everything else constant. However, key risk of capital outflows for other developing countries can occur due to high inflation globally resulting in developed market rate hikes, causing a risk-off shift for Emerging market assets in CY2022.

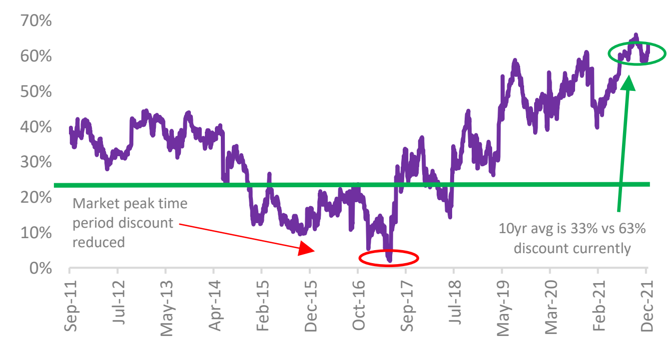
Effective from December 2021, Pakistan is part of MSCI Frontier market (FM) after being part of Emerging market since 2017. Pakistan will have around 1% weight for the constituents of the MSCI FM Index (Standard) which includes three companies: LUCK, HBL and MCB. Key milestone going forward would be MSCI's decision on consultation on potential inclusion of Pakistan to the MSCI FM100 index which would be important from attracting flows of passive funds. The result of this consultation will be announced along with February 2022 quarterly review and will be made part of May2022 Semi-Annual Index Review. Given the higher weights in FM, at least the visibility of Pakistan will improve substantially.

Pakistan has historically outperformed the Frontier and Emerging market by a healthy margin of 4-7% over the long run, despite the recent few years of underperformance as developed markets have been at the center of attention of global investors for last few years. PSX's discount to MSCI FM is at its highest level in over a decade as a result of divergence from FM performance amid high PKR devaluation since CY2018. The discount has widened over the years due to persistent foreign selling that had kept the market in a strong bear grip. However, this appears to be changing due to continued support of multilateral agencies, improvement in forex reserves position and gradual progress on much needed structural reforms by the government.

**Key Valuation matrix of Pakistani Market vs MSCI Frontier Market**




**PSX at 63% discount to MSCI Frontier Market vs 10 year average discount of 33% (on PE basis)**



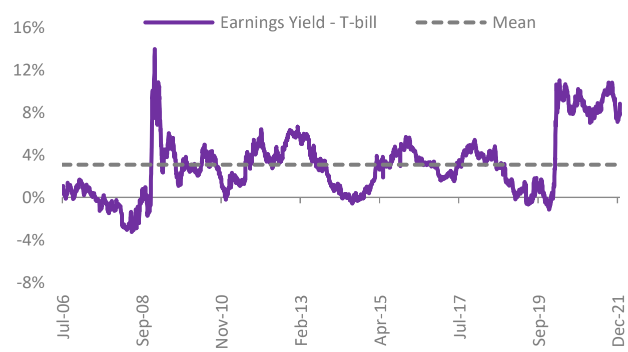

Source: PSX, Bloomberg

With corporate earnings growing at steady pace and global commodity cycle easing and resumption of IMF program, the pressure on PKR is expected to ease after a few months. We also expect foreign selling to taper off, amid limited holding of foreigners and attractive Price to Earnings multiple compared to regional countries. Looking at key valuation matrix of Pakistani market versus MSCI FM shows that it fares well on all counts with P/E trading at a substantial discount of 4.9x versus 13.4x for FM. Dividend yield for Pakistani market is also considerably higher at 7.7% versus 3.6% for FM, while on a P/B basis also Pakistan is trading at discount of 1.0x versus 2.3x for FM. This leads us to believe, that eventually active funds of frontier market will likely keep an overweight stance on Pakistan.

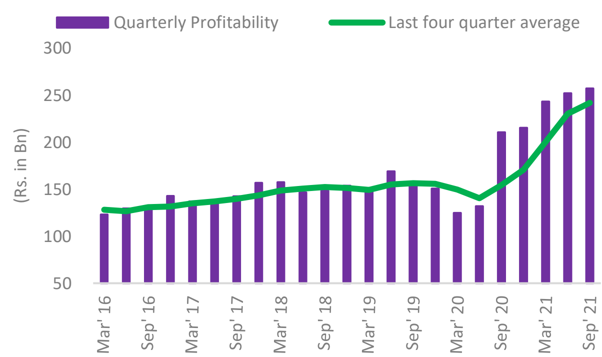
## Strong growth in earnings makes equities attractive despite interest rate increase

Despite the recent increase in interest rates, the attraction of equities remains due to substantial gap with fixed income alternatives making it a preferred asset class among investors, especially life insurance, retirement funds and government pension funds, which have a long-term horizon. This can be explained by the significant gap between Earnings Yield (E/P) and yields on the 12-month T-bills. Historical difference between the two has been around 3.1%, however the current spread has increased to 8.8% which implies that market is trading at substantial discount to its historical level and should re-rate fundamentally. After witnessing slowdown in corporate profitability during peak COVID-19 quarters of March and June 2020, the corporate profitability has witnessed a healthy surge since then. We have witnessed strong corporate results since the last four quarters, with decent cash payouts as well. Healthy participation in new listing shows that there is ample liquidity waiting on the sidelines. We believe that Pakistan's equity market is well set for a secular bull run going forward due to improving growth outlook.

**Earnings Yield (1/PE) vs. T-Bill Yield**




**KSE-100 Index company's profitability improving**




Source: PSX, Bloomberg

## Conclusion & Recommendation

The macroeconomic outlook has improved due to the resumption of business activity in CY2021, post lockdown. Consumption of petroleum, cement and automobiles posted decent growth during the period. After adopting ease in monetary policy during FY2021, the priority of monetary policy has appropriately shifted towards tightening and moving towards positive real interest gradually as economic growth improves and in order to address external account concerns. While there are some concerns emerging on the external side due to high trade deficit in recent months and transition phase in Afghanistan. In order to avoid the boom-bust cycle witnessed in the past, the central bank has appropriately taken preemptive measures to stabilize the economy.

The resumption of IMF program is expected soon with tough measures to address structural flaws gradually being taken by the government. For the equity market, we expect the sanguine outlook to continue on the back of robust corporate earnings growth and still attractive valuation as it is currently trading at a low forward P/E multiple of 4.9x compared to long term average P/E multiple of around 8.3x, along with attractive dividend yield of 7.7%, we expect the market to continue to give decent return in coming time period in line with its historical track record. All things considered, Pakistani equities offer a value buy and coupled with the expected upward trajectory. Therefore, we recommend our investors to focus on the above-mentioned factors and build equity positions in their portfolio via direct investment or through mutual funds to benefit from the upward trend.

In the light of our favorable stance for investment in equities, Al Meezan offers exposure to equities through a range of mutual funds in its product suite depending on one's risk tolerance level. For long term investor with high risk tolerance we recommend our flagship Meezan Islamic Fund (MIF), which hosts an AUM of Rs. 30.5 bn as on 31st Dec-2021, while AL Meezan Mutual Fund (AMMF) has a track record of more than twenty-six years. We have also launched Pakistan's first Shariah-compliant ETF called Meezan Pakistan ETF (MP-ETF) which provides exposure to the top liquid Shariah-compliant stocks in the market.

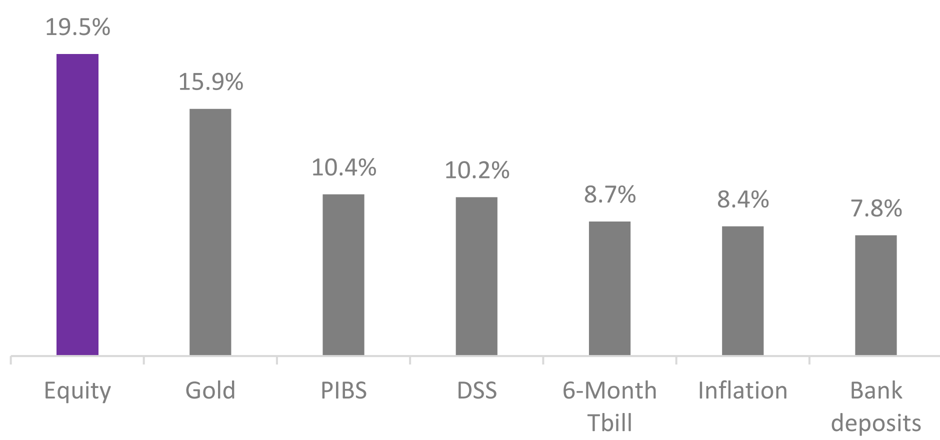
For investors with medium-risk tolerance, Al Meezan offers Meezan Balanced Fund (MBF), investing partially in equity and fixed income, while Meezan Asset Allocation (MAAF) is also a hybrid fund with exposure in both equity and fixed income.

## Asset class returns

**Equities has historically outperformed other asset classes in the long run**

| Investment Avenues – 20 Years (% Returns) | | | | | | | |
|---|---|---|---|---|---|---|---|
| Period | Equity (KSE-100) | Gold | Defense Saving | 10 Year Govt. Bonds | Inflation | 6-month T-bill | Bank Deposits |
| CY02 | 112 | 21 | 13 | 9 | 4 | 7 | 4 |
| CY03 | 66 | 18 | 9 | 5 | 3 | 2 | 2 |
| CY04 | 39 | 9 | 8 | 7 | 7 | 3 | 3 |
| CY05 | 54 | 19 | 9 | 9 | 9 | 8 | 7 |
| CY06 | 5 | 25 | 10 | 10 | 8 | 9 | 9 |
| CY07 | 40 | 33 | 10 | 10 | 8 | 9 | 9 |
| CY08 | -58 | 35 | 11 | 14 | 20 | 12 | 11 |
| CY09 | 60 | 32 | 11 | 13 | 14 | 13 | 12 |
| CY10 | 28 | 32 | 12 | 13 | 15 | 13 | 12 |
| CY11 | -6 | 16 | 13 | 14 | 12 | 13 | 13 |
| CY12 | 49 | 16 | 12 | 13 | 10 | 11 | 11 |
| CY13 | 49 | -22 | 11 | 12 | 8 | 7 | 9 |
| CY14 | 27 | -7 | 12 | 13 | 7 | 10 | 10 |
| CY15 | 2 | -6 | 9 | 9 | 3 | 7 | 7 |
| CY16 | 46 | 9 | 8 | 8 | 4 | 6 | 6 |
| CY17 | -15 | 19 | 7 | 8 | 4 | 6 | 6 |
| CY18 | -8 | 24 | 9 | 10 | 5 | 8 | 7 |
| CY19 | 10 | 32 | 12 | 13 | 10 | 12 | 8 |
| CY20 | 7 | 29 | 9 | 10 | 10 | 9 | 6 |
| CY21 | 2 | 7 | 9 | 10 | 9 | 8 | 6 |
| **CAGR** | **19.5** | **15.9** | **10.2** | **10.4** | **8.4** | **8.7** | **7.8** |

### Investment Avenue- 20 Year CAGR

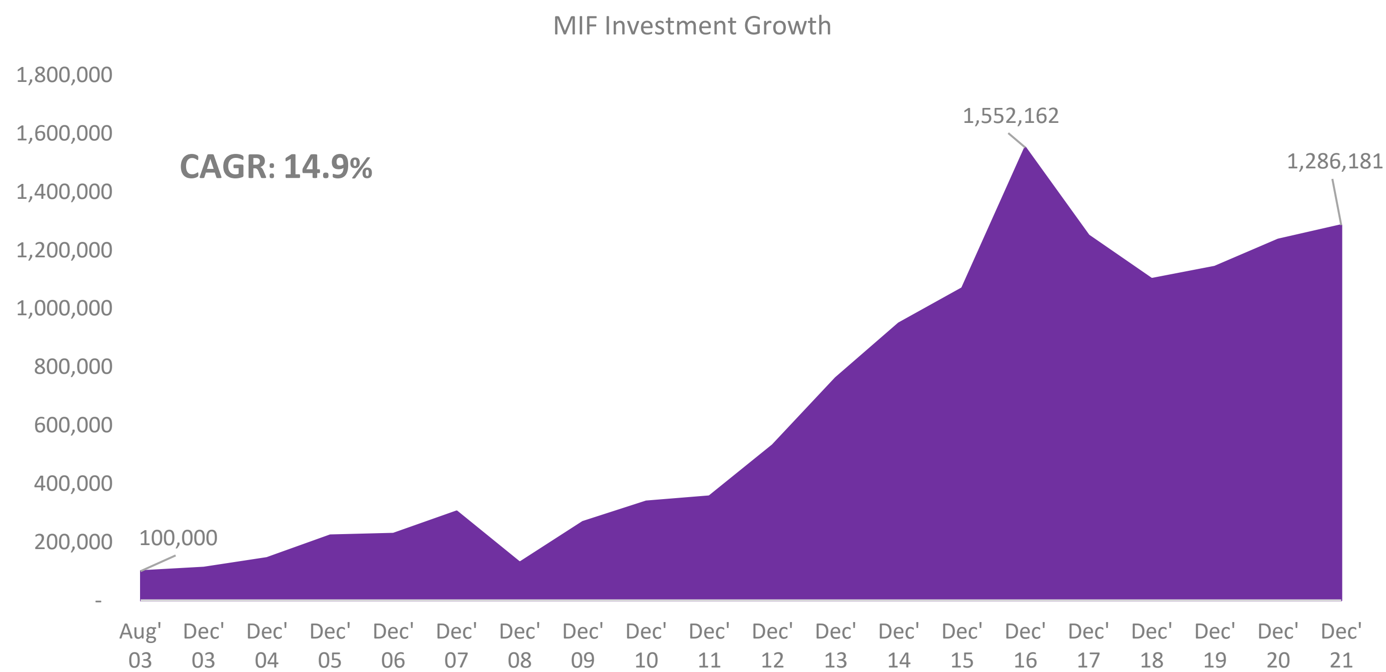


## The right direction

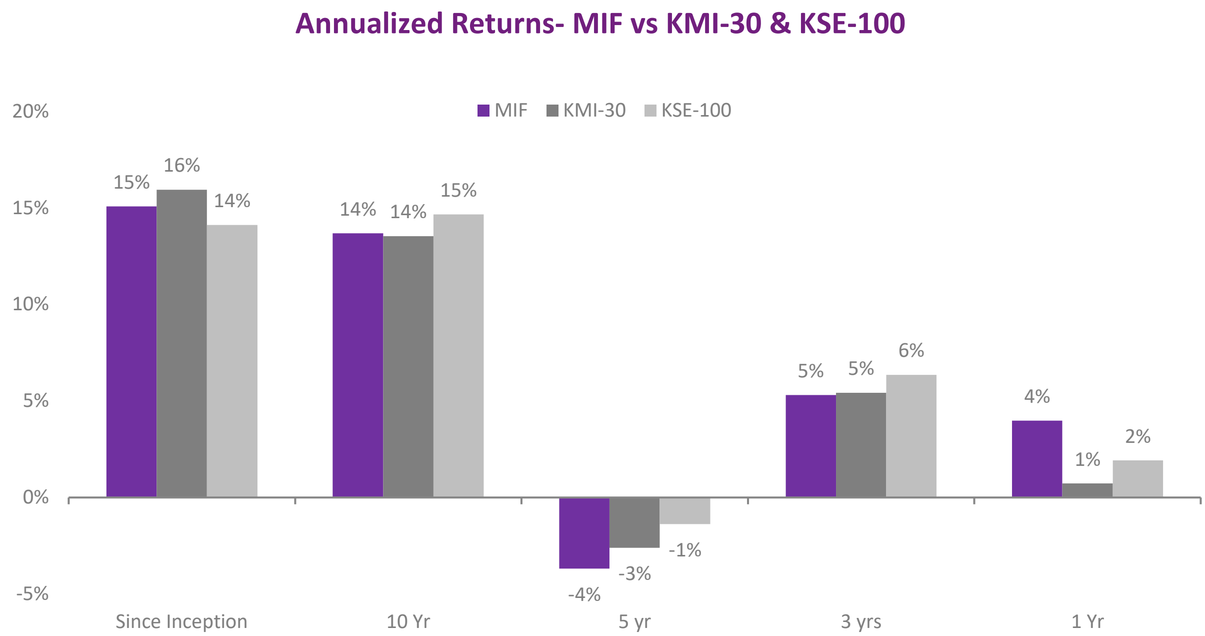
Al Meezan Investments continuously strives to give highest possible risk-adjusted returns to its valued investors. Financial specialists at Al Meezan Investments apply their proficient skills and knowledge in selecting the most fundamentally strong assets that considerably increase the value of our funds even in times of political instability.

## Meezan Islamic Fund (MIF) – Rock solid for long term

Our star open-end mutual fund Meezan Islamic Fund, has amassed a past filled with over 18 years of providing Sharia complaint equity exposure to its investors. Current AUMs are of around Rs. 30.5 bn as of December 31, 2021. Assuming an investor made an initial investment of Rs. 100,000 in MIF on its inception date in August, 2003 and did not make any withdrawals, his investment would now have grown to Rs. 1,286,181 (till December 31, 2021), earning 14.9% CAGR. Equity has always remained the best performing asset class for long-term investors willing to withstand short to medium-term volatility.



The graph below shows the annualized returns (till December 31, 2021) of MIF, KMI-30 and KSE-100 for the past 1, 3, 5, 10 years and since inception.




* Performance returns being calculated NAV to NAV with or without dividend reinvested and does not include the cost incurred directly by an investor in the form of sales load.

** SWWF Disclosure: During the month of August 2021, provisioning against Sindh Workers' Welfare Fund by MIF amounting to Rs. 532.12 million has been reversed on the clarification received by Sindh Revenue Board vide letter No. SRB/TP/70/2013/8772 dated August 12, 2021 addressed to Mutual Funds Association of Pakistan. This reversal of provision has contributed towards an increase in NAV of the MIF by 1.57%. This is one-off event and is not likely to be repeated in the future.

# Fixed Income: Double digit yields are here to stay

During the period under view, the central bank raised the policy rate by a cumulative 275bps to put some restraints on the overheated economy and to control the depreciating rupee. T-bill yields rose in the range of 320bps to 410bps whereas longer tenor PIB yields showed an upward trend in the range of 160bps to 320bps.

After the last decline in the policy rate during June 2020, the SBP had kept the policy rate unchanged at 7pc for more than a year in six consecutive monetary policies. For FY22, SBP is now projecting inflation to remain in the range of 9-11%, up from the earlier expectation of 7-9% due to broad based rise in food, electricity and motor fuel.

**Secondary Market Yields Snapshot:**

| | December 2020 | December 2021 | Difference from August 2021 |
|---|---|---|---|
| **SBP Policy Rate** | **7.00%** | **9.75%** | **2.75%** |
| **GoP Securities** | | | |
| 6- Months T-Bills | 7.18% | 11.30% | +4.12% |
| 10-Year Pakistan Investment Bonds (PIBs) | 10.00% | 11.62% | +1.62% |
| Ijarah Sukuk | 7.36% | 10.90% | +3.54% |
| **Corporate Instruments** | | | |
| TFCs (AA rated and above) | 10.05% | 11.13% | +1.08% |
| Corporate Sukuk | 7.78% | 10.16% | +2.38% |

| Highest and Lowest Yields for the Period December 2020 to December 2021 | | |
|---|---|---|
| **T-bills** | **High** | **Low** |
| T-Bill 3 Months | 10.79% | 7.11% |
| T-Bill 6 Months | 11.41% | 7.18% |
| T-Bill 12 Months | 11.54% | 7.28% |
| **PIBs** | **High** | **Low** |
| PIB 3 Year | 11.95% | 8.28% |
| PIB 5 Year | 12.00% | 9.12% |
| PIB 10 Year | 12.27% | 9.77% |

**Outlook**

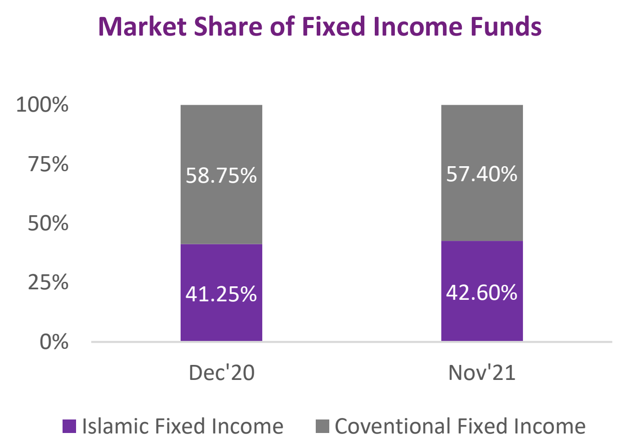
Going ahead, high inflation might warrant a possible but gradual increase of another 50 bps to 100 bps hike in the policy rate during second half of FY22 to maintain a balance between growth and inflation, in line with the SBP's forward guidance. In the FX market, the rupee depreciated 10.4% (Rs. 16.68 weaker) over the period with the exchange rate closing at Rs. 176.51/$ compared to PKR 159.83 in December 2020.

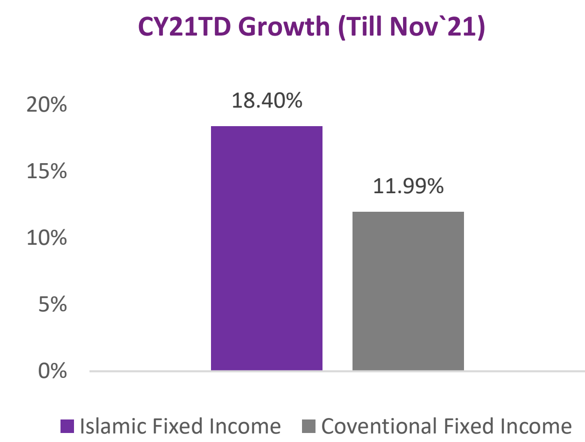
## Fixed Income funds continued on a smooth ride

With increasing policy rate, returns of fixed income funds followed the course and the fund's continued offering higher and market competitive returns, while beating their respective benchmarks by a considerable margin.

Going forward, we expect a similar trend and in case of a further rise in the policy rate, fixed income funds will continue to provide an attractive risk adjusted rate of return to meet their investors' requirements.

## Comparison of Growth in Fixed Income Funds



**Shariah Compliant end of the Money Market**

On the Shariah compliant end of the money market, the central bank borrowed Rs. 640.8 bn by issuing floating rate as well as fixed rate Ijarahs. As the issues related to availability of assets to be used for issuing Ijarah/Sukuk were resolved, the central bank conducted regular Ijarah auctions to taper excess liquidity with Islamic Banks. Moreover, market players in the Islamic side of the money market are working very closely with the Ministry of Finance and the central bank to further enhance the government's ability to borrow from Islamic Financial Institutions with different short and long term maturities options.

| Ijarah | Issue Date | Type | Coupon | Issue Size (bn) | Maturity | Market Price | |
|---|---|---|---|---|---|---|---|
| | | | | | | 31-Dec | YTM |
| XXIV | 20-Jan-21 | Fixed | 9.45% | 8 | 20-Jan-26 | 97.00 | 10.37% |
| XXV | 9-Oct-21 | Floater | 7.85% | 191 | 9-Oct-26 | 99.13 | 11.09% |
| XXVI | 29-Oct-21 | Floater | 8.70% | 361 | 29-Oct-26 | 99.38 | 11.23% |
| XXV | 9-Oct-21 | Fixed | 9.70% | 13 | 9-Oct-26 | 97.83 | 10.28% |
| XXVI | 15-Dec-21 | Fixed | 11.40% | 68 | 15-Dec-26 | 100.96 | 11.14% |

It is also encouraging to note that SECP is also taking steps for promoting Islamic sukuk by organizing seminars and educating the issuers and investors on the benefits of raising debt through issuance of Shariah compliant instruments. Some of the blue-chip corporates have already started to understand the excess liquidity situation of the Islamic Financial sector and have started issuing corporate sukuk to raise debt at relatively lower spreads than they would have had to bear in case of TFCs or bank loans; in line with this observation, we have been witnessing increased issuance of corporate sukuk since CY2019. Hopefully, a consistent increase in the issuance of new Sukuk (both government and corporate) will be seen going forward which will aid the Islamic market in managing their liquidity effectively.

In order to facilitate and improve the Islamic side of the money market the State Bank of Pakistan has decided to introduce Shariah Compliant Modaraba based Open Market Operations (OMO-Injections) and Financing facility (MFF - Discounting facility). In addition to facilitating the Islamic money market, this move will also provide the central bank with an additional borrowing avenue.

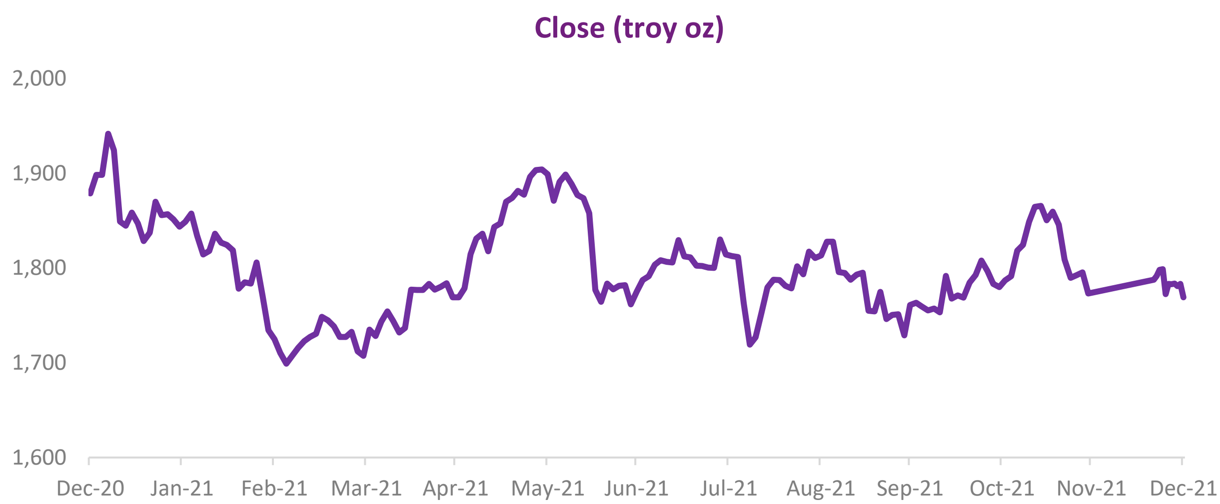
Going forward, Sukuk issuances are expected to continue as the government is adamant to increase the share of Islamic debt in the overall domestic debt. The government is targeting to increase the share of Islamic borrowing to 10% which indicates more regular issuances of Islamic government securities in the future.

# Gold – 2021 & beyond

CY2021 has turned out to be a lackluster year for the yellow metal. International Gold prices started the year at around USD 1,898 per oz and touched a high of USD 1,959 per oz on January 5, 2021. This came on the back of increased geo-political uncertainty that we witnessed at the end of the Trump presidency as the world witnessed a rather chaotic transfer of power in the US. Gold prices saw a period of dip since then before regaining some momentum & rebounding in June, where they briefly touched USD 1900 again.

Since then, prices have remained depressed, particularly on the back of healthy rebound in US stock market, which benefitted from Biden's 100-day target to increase rate of vaccination in the US. However, since then the prices have again faltered below the USD 1900 psychological mark, particularly due to the delta variant, which continued to run rampant, particularly in India.

**Spot Gold (USD/Oz) in CY 2021**




Expectations for a twist in monetary policy was led by the Federal reserve, which indicated that it is all set to initiate tapering in bond buying program. This notion was gaining traction on the back of rise in inflation and a gradual change in narrative from the Fed, which started to acknowledge that Inflation may indeed not be transitory in nature. However, till date such expectations are still largely heard from one or two regional presidents of the Federal Reserve. Nevertheless, gold prices have continued to drop since June to a level, where they are now holding at USD 1800 mark towards the end of the year 2021.

Going forward, we believe that it is prudent to keep a watchful eye on potential portfolio risks, emanating from global factors such as US debt ceiling issues, inflationary pressures, Omicron and other variants and most importantly the return to monetary tightening. It should also be noted that the Biden Administration continues to roll-out unprecedented levels of stimulus; with the most recent one being a USD 2 trillion Build Back Better COVID-19 relief package approved in November 2021 and a defense budget bill being in the works in December 2021.

The threat of evolving variants will likely keep governments around the world on the edge, with the lingering debate seeming to revolve around; whether global economies will again proceed towards lockdowns and restrictions as the situation surrounding COVID-19 remains fluid. We expect that gold presents a valuable opportunity for investors who seek to buy the yellow metal when it is weak and investors should continue to monitor the situation surrounding the Federal Reserve in particular to chart a future course of trajectory for gold prices. Such events should present valuable buying opportunity where attractive price levels can be targeted, especially by those seeking long term investment in the precious commodity, keeping portfolio risks in mind.

# Meezan Pakistan ETF: Pakistan's first shariah Compliant ETF

Over the last 20 years the stock market has provided a return of almost 19%, in CAGR terms as at December 2021, thus making it a very attractive venture for investors. However, it is also true that the stock market is not for the faint of heart as the course of its performance period is rife with many ups and downs. In fact, these rounds of volatility can even be seen during a single day. The stock market may initially be negative in the morning, only to turn positive by the afternoon. The pandemic has further exacerbated this volatility and is also keeping investors on edge.

Exchange Traded Funds (ETFs) are a very suitable investment vehicle, particularly for first time investors that are not experts in this area, but aim to test the waters with their investment. ETFs can allow investors to get an exposure to a diversified basket of Pakistani Stocks by simply approaching their broker and making a trade at prices that are readily available to them during market hours.

## Types of Exchange Traded Funds (ETF):

ETFs have been quite popular around the globe, amassing over USD 9 trillion assets under management, by the end of 2021 (as per The Wallstreet Journal). ETFs essentially provide an easy way to diversify across different sectors of industries and securities, their constituent can include stocks, commodities, bonds, or other securities.

Globally, there are several types of ETFs on offer, such as:

I. **Index Tracking ETFs** which track a major index, such as KMI-30;

II. **Sector & Industry ETFs** which imitate a particular sector or industry;

III. **Commodity ETFs** which target a certain specific commodity(ies), such as gold or oil, etc.;

IV. **Bond ETFs** which take may exposure to international, government or corporate bonds;

V. **Style ETFs** which track an investment style, such as large-cap or contrarian;

VI. **Foreign Currency ETFs** which aim to emulate different foreign currencies.

## Benefits of an ETF:

An ETF is similar to a Mutual Fund; however, it has certain important characteristics that make it significantly different when directly compared to a regular Mutual Fund;

1. It enjoys the diversification advantage typically available to Mutual Funds, as it consists of a basket of securities. Nevertheless, it is unique in the sense that it tends to trade just like a share of stock. The investor can easily approach their broker to buy or sell an ETF any time during the day, when the stock market is open for business.
2. Unlike an Open-End Mutual Fund, an ETF provides continuous prices throughout the trading day. This feature is also similar to a share of stock, where price of any stock is available throughout the day. In contrast with an Open-End Mutual Fund where NAVs are generally available only at end of business day.
3. Well diversified ETFs will generally permit the investor to purchase a basket of stocks in one-go, without having to buy individual stocks and perhaps incur higher transaction costs. Hence exposure through ETFs may in fact lead to reduction in cost for an investor.
4. Passive Equity ETFs typically have a passive strategy and may have low management fees, perhaps without any sales-load as well. This may make passive ETFs cost-effective means to take exposure to stocks in a particular index strategy that the ETF aims to mimic.

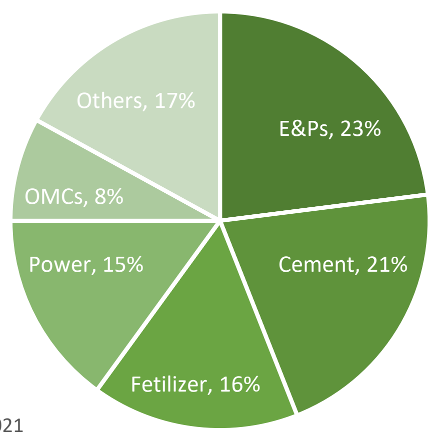
5. Normally the portfolio of the ETF and its constituents are available to investors each day, thereby enhancing transparency. When one compares this feature with an Open-End Funds, we realize that such funds generally disclose a certain percentage of their holdings in their Fund Manager Reports which are normally available at end of the month. Thus, investors have the added advantage of seeing an ETF portfolio whenever they like.

## Meezan Pakistan Exchange Traded Fund (MP ETF):

Al Meezan Investment Management Limited is the first AMC to launch several new shariah compliant funds in the market, such as; commodity fund, Index Tracker Fund, Fund of Funds, Sovereign Fund and several other innovative products that were considered as the first of their kind to the industry.

Keeping up this tradition to be the "first-to-the-market", Al Meezan became the first firm to launch a shariah-compliant equity ETF on October 06, 2020, called Meezan Pakistan ETF (MP-ETF). This ETF provides investors with diversified exposure to important sectors of the Pakistan Stock Exchange (PSX); such as Cement, Oil & Gas Exploration (E&Ps), Fertilizer, Oil & Gas Marketing (OMCs) and Pharmaceuticals. The MP ETF has an underlying basket of 12 stocks, derived from the sectors mentioned above. MP ETF offers exposure to high quality, liquid shariah-compliant stocks in the market. Investors can garner exposure in ETF, while being secure with the knowledge that the fund's operations have been fully approved by its Shariah Advisor (Dr. Muhammad Imran Ashraf Usmani Sb).

**Exposure to various sector (MP-ETF)**



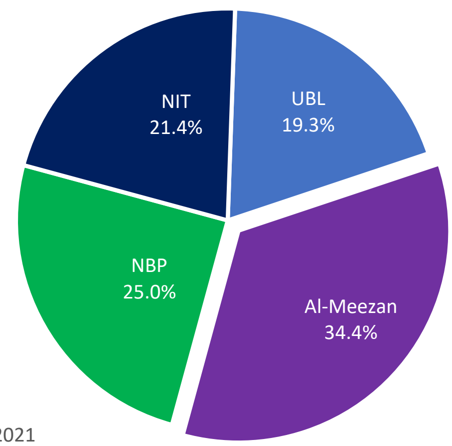

As of December 2021

Investors investing in stock market with a broker account can simply request their broker to purchase shares of MP ETF from the stock market. These can be monitored by the investor by viewing the price display on the PSX website, on their respective brokerage trading panel.

At the time of writing this article, three other AMCs have also launched their ETFs on Pakistan Stock Exchange. Therefore, currently in the industry there are a total of four ETFs. With Al Meezan having the only Shariah Compliant ETF, available for the exclusive benefit of investors who are Shariah conscious in nature and seek halal investments.

We expect that more AMCs will be launching their ETFs soon, thus creating space for healthy competition along with developing this segment of the market and ultimately benefitting the investors who wish to take exposure to Pakistani stocks in a cost effective, efficient and prudent manner.

**Market share**




As of November 2021

# Marketing Highlights 2021

**Contributors**
**Ali Lawai, CFA | Yousuf Kamran | Safi Uddin | Saman Banatwala**

## **Al Meezan Investments** is a proud winner of **IFFSA Asset Management Company of the Year** and **Triple A Islamic Asset Manager of the Year** Awards

# AWARDS AND ACHIEVEMENTS

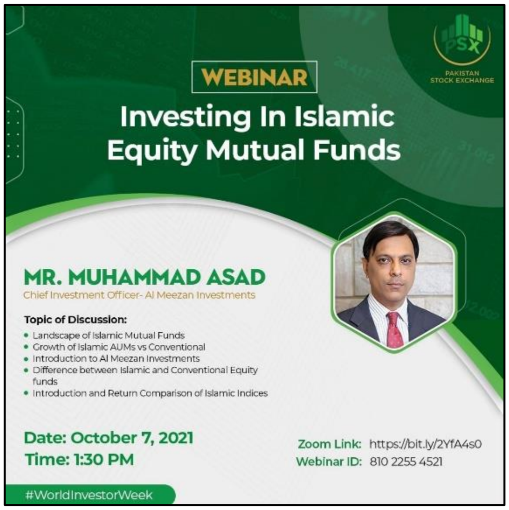
During the year 2021, Al Meezan received the award for:

- **"Asset Management Company of the Year"** at the 6th IFFSA Award
- **"Asset Manager of the Year"** by Triple A

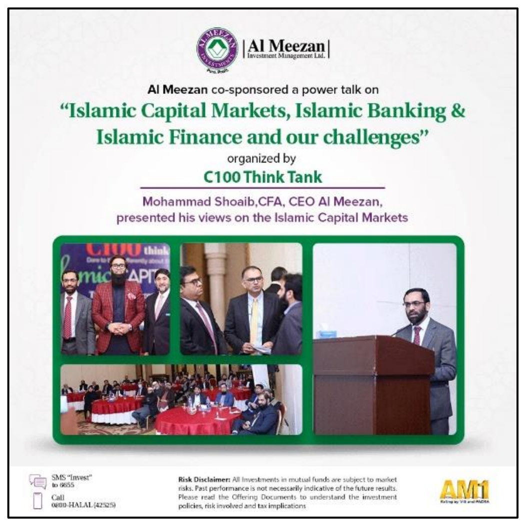

**Mohammad Shoaib, CFA, CEO Al Meezan Investments** was recognized for **"One of the Top 25 Leaders in Asia"** by Asia Asset Management Magazine in its 25th Anniversary Edition.

# EDUCATING THE MASSES

Al Meezan Investments held a series of webinars and participated in conferences for product and category awareness.






Disclaimer: All investments in mutual funds are subject to market risk. Past performance is not necessarily indicative of the future results. Please read the offering document to understand the investment policies, risks and tax implications involved.

# MARKETING CAMPAIGNS

Staying connected to the investors was Al Meezan's top priority amidst the challenges brought about by the pandemic. In order to ensure that customers continued to receive unimpeded services, Al Meezan further beefed up its digital assets.

## Launch of Joint Account in Roshan Digital Account

Al Meezan Investments offers Non-Resident Pakistanis to invest in Mutual Funds from anywhere in the world. Good News is that you can now open your **Joint Digital Investment Account** with Al Meezan Roshan Digital Account.


## Upgradation of Sahulat Sarmayakari Account


## Upgradation of Digital Account Opening

## Roshan Digital Account Campaign



## Meezan Savings Plan Campaign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# Meet & Greets: Client Engagement Activities

Al Meezan Investments hosted a dinner for its valuable clients and was very obliged by the esteemed guests who attended the get together.


Al Meezan Investments invited its valuable customers for a meet and greet at its different branches on the Red Carpet Day in order to engage with their clients face to face and build that strong sense of connection and trust.

# RISK PROFILE OF COLLECTIVE INVESTMENT SCHEME/PLANS

| Fund Name | Symbol | Funds Category | Risk Profile | Risk of Principal Erosion |
|---|---|---|---|---|
| Meezan Islamic Fund | MIF | Islamic Equity | High | High |
| Al Meezan Mutual Fund | AMMF | Islamic Equity | High | High |
| KSE Meezan Index Fund | KMIF | Islamic Index Tracker | High | High |
| Meezan Energy Fund | MEF | Islamic Equity | High | High |
| Meezan Dedicated Equity Fund | MDEF | Islamic Equity | High | High |
| Meezan Pakistan Exchange Traded Fund | MP-ETF | Exchange Traded Fund | High | High |
| Meezan Gold Fund | MGF | Islamic Commodity | High | High |
| Meezan Asset Allocation Fund | MAAF | Islamic Asset Allocation | High | High |
| Meezan Balanced Fund | MBF | Islamic Balanced | Medium | Medium |
| Meezan Islamic Income Fund | MIIF | Islamic Income | Medium | Medium |
| Meezan Sovereign Fund | MSF | Islamic Income | Moderate | Moderate |
| Meezan Daily Income Fund | MDIP-I | Islamic Income | Moderate | Moderate |
| Meezan Cash Fund | MCF | Islamic Money Market | Low | Low |
| Meezan Rozana Amdani Fund | MRAF | Islamic Money Market | Low | Low |
| Meezan Financial Planning Fund of Fund | MFPF | Islamic Fund of Funds | Plan Specific (Medium to High) | Plan Specific (Medium to High) |
| Meezan Strategic Allocation Fund | MSAF | Islamic Fund of Funds | Plan Specific (Medium to High) | Plan Specific (Medium to High) |
| Meezan Strategic Allocation Fund - II | MSAF-II | Islamic Fund of Funds | Medium | Medium |
| Meezan Strategic Allocation Fund – III | MSAF-III | Islamic Fund of Funds | Medium | Medium |

Al Meezan
Investment Management Ltd.

AM1
Rating by VIS & PACRA

*Al Meezan mein Itminan hai.*

## CONTACT US

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We are available on Social Media

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