



Monthly Fund Report - 28 February 2010

NAV 10.3007

Fund Objective

The BMA Empress Cash Fund is a professionally managed cash fund, which aims to minimize risk, maximize liquidity and generate a competitive rate of return. Portfolio allocation will be concentrated in AA rated banks and short duration sovereign rated securities, which will enable the fund to earn consistent risk adjusted returns.

Fund Details

Structure	Open End
Inception Date	12-Nov-09
Base Currency	PKR
Listing	KSE
Minimum Subscription in PKR	5,000
Benchmark	3M Deposit Rate
Assets in PKR MLN [28.2.10]	497.3
NAV/unit in PKR [28.2.10]	10.3007

Fee & Redemption Structure

Management Fee	1.50%
Front end Load	Up to 1.00%
Valuation Frequency	Daily

Manager Details & Service Provider

Fund Manager	Mustafa Pasha BMA Funds
Trustee	MCFSL
Auditors	Ford Rhodes
Transfer Agent	Technology Trade
Legal Advisors	KMS Law Associates

Subscription/Client Service Contact

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Fund Review Note

During Feb10 BECF generated an annualized return of 10.40%, while calendar year to date and inception to date returns were 10.95% and 10.43% respectively. AUMs stand at PKR497.3mn, a decrease of 0.7%.

Market & Economic Review

Due to tight liquidity conditions in the market, secondary market yields on both short and long tenor government securities faced upward pressure. The yield on the 6M Treasury bill and 10YR PIB increased by 30bps and 20bps respectively during Feb10. In the last T-bill auction held on 24 February cut off yields increased across the board by 23bps-28bps. The lack of liquidity in the market is the result of numerous factors, the main amongst them being; stagnant deposit growth (1.9% growth FY10TD), limited NFA inflows (PKR29bn FY10TD) and high government borrowing from scheduled banks (up by 33.5% FY10TD).

Concerns over the external account remained muted as data for 7MFY10 showed a 69% drop in the current account deficit. In fact the balance of payments is still in surplus to the tune of USD829mn. Lower imports (↓14%), higher worker remittances (↑22%) and loan flows from the IMF, WB and ADB have kept the external account in the black. As a result FX reserves have remained buoyant at USD14.8bn.

Inflationary pressures remained with the sensitive price indicator falling slightly from its peak of 18.4% to 16.5%. It is

Return Risk Statistics

Annualized Return [February]	10.40%
Annualized Return [CY10]	10.95%
Portfolio Duration	65 Days
Portfolio Standard Deviation	0.01%
Average 3M Deposit Rate	7.40%

Portfolio Credit Quality

AAA	AA+	AA	AA-	A+	A	A-	BBB+	Other
30.4%	20.6%	49.1%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

expected that headline inflation for Feb10 will be in the range of 13.0%-13.5%. As a result a discount rate cut in Mar10 has for all practical purposes been ruled out. The borrowing needs of the government (2.7% fiscal deficit in 1HFY10) have so far been borne by the banking sector. Unless external financing in the form of the FODP and CSF materialize, liquidity conditions will continue to constrain the SBP's ability to continue monetary easing.

Asset Allocation

Asset allocation has changed significantly during Feb10. The TDRs placed at the end of CY09 have matured and allocation has dropped from nearly 70% in Jan10 to 25.1%. Exposure to a COI and T bill was taken, which has increased their weights to 20.1% and 29.7% respectively. Allocation to cash has increased to 22.8%, while portfolio duration has increased further to 65 days. Asset quality remains high with 30.4% of net assets having a sovereign rating.

Investment Strategy

Portfolio duration has been increased in line with our strategy. However because the extent and pace of monetary easing is likely to be constrained by uncertainty over foreign inflows, the fund is now maintaining higher cash levels. Deposits rates have fallen below the yields on sovereign rated debt securities, thus allocation will be tilted towards T bills at least until banks offer higher rates. The upcoming T bill auctions present an attractive investment opportunity and the Fund will be looking to participate.

Asset Allocation

Asset	Feb	Jan	Δ
Term Deposits	25.1%	69.9%	(44.8)
COI	20.1%	0.0%	20.1
Reverse Repo	0.0%	0.0%	0.0
T bills	29.7%	19.5%	10.2
Accruals	2.2%	2.8%	(0.6)
Cash & Equivalents	22.8%	7.9%	14.9