



Monthly Fund Report - 31 July 2010

NAV 10.1319

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
Fund Stability Rating	AA+ (JCR)
Management Quality Rating	AM2- (JCR)
Base Currency	PKR
Listing	KSE
Minimum Subscription in PKR	5,000
Benchmark	3M Bank Rate
Assets in PKR MLN [30.07.10]	1,055.1
NAV/unit in PKR [31.07.10]	10.1319

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 Jul10 BECF generated an annualized return of 10.45%, while calendar year to date and inception to date returns were 10.55% and 10.46% respectively. AUMs stood at PKR1055.1mn an increase of 25.5% over last month. Portfolio duration increased slightly to 85 days, while standard deviation remained at 0.03% reflecting the low risk profile of the fund.

Market & Economic Review

In a move that surprised both equity and money market participants the SBP increased the discount rate by 50bps to 13.0% in its Jul10 policy review. The reason for the surprise was the earlier decision by the SBP to scrap the PIB auction because the bid yields were too high.

With inflation resurgent due to the seasonal effect of Ramadan, elimination of power subsidies and fall out from the massive flooding, CPI is expected to breach the 13.0% level over the next quarter. The SBP also expects that as the government attempts to reconstruct the devastated infrastructure, it will require large amounts of funding. With international aid flows uncertain, fiscal indiscipline is expected to continue. Pressure on domestic liquidity, interest rates and private sector borrowing is projected to dampen economic growth.

Going forward the risk of further increases in the discount rate have emerged stronger as the SBP will attempt

to neutralize the effect of government borrowing on the monetary base. There are two more policy reviews during the remainder of CY10 and further hikes cannot be ruled out unless some clarity on foreign aid flows emerges.

Asset Allocation

During Jul10 the Fund increased exposure to T bills (68.1%) while maintaining allocation to TDRs, COIs and Cash at 9.0%, 9.5% and 13.1% respectively. Portfolio duration increased slightly to 85 days while portfolio credit quality remained strong with over 68% of the Fund classified as sovereign rated debt (AAA).

Investment Strategy

In light of the SBP's pre-emptive move to increase the discount rate, the monetary environment has changed significantly over the last month. The question remains whether the increase was a one off event or the beginning of a longer term trend. While we believe that another discount rate increase will be detrimental to growth prospects and be ineffectual in containing supply side inflation, the risks to further upside have increased. In such a situation it would be prudent to hedge against further tightening and re-balance the portfolio's holdings. Consequently the Fund will be looking to shorten portfolio duration by shortening its individual investments to no longer than 3 months. This will enable the Fund to continue generating competitive risk adjusted returns and keep re-deploying funds at higher yields if interest rates continue to rise.

Return Risk Statistics

Annualized Return [July]	10.45%
Annualized Return [CY10]	10.55%
Portfolio Duration	85 Days
Portfolio Standard Deviation	0.03%
Average 3M Deposit Rate	7.0%

Asset Allocation

Asset	July	June	Δ
Term Deposits	9.0%	11.3%	(2.3)
COI	9.5%	11.9%	(2.4)
Reverse Repo	0.0%	0.0%	0.0
T bills	68.1%	60.0%	8.1
Accruals	0.3%	0.9%	(0.6)
Cash & Equivalents	13.1%	15.9%	(2.8)

Portfolio Credit Quality

AAA	AA+	AA	AA-	A+	A	A-	BBB+	Other
68.29%	9.50%	22.21%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%