



Monthly Fund Report - 30 November 2009

NAV 10.0559

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 [30.11.09] | 185.3 |
| NAV/unit in PKR [30.11.09] | 10.0559 |

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

BMA Funds is proud to present the BMA Empress Cash Fund, which was launched on 12th November, 2009. During its first 18 days of operation the BECF generated an annualized return of 11.30% for its unit holders, which puts it in the top quartile of cash funds. Net assets were at PKR185.3mn, while the portfolio was generating a gross return of 11.9%

Market & Economic Review

As per our expectations; inflation dropped to 8.9% in Oct09 and the SBP chose to cut the discount rate by 50bps to 12.5%. As a result secondary market yields on both short and long tenor government papers dropped.

However the absence of liquidity in the inter-bank market, due to heavy government borrowing (PKR164bn in 5MFY10) and fall in time and demand deposits (PKR31bn) limited the downside to rates. Following the increase in petroleum prices and electricity tariffs, inflationary pressures are expected to rebound from Nov09 onwards. The SBP's decision to transfer USD payment of crude oil imports to scheduled banks from Dec 14, 2009 and delay in the IMF's tranche of USD1.2bn has adversely affected the PKR and market sentiment. As a result yields on the 10 year PIB have jumped from around 12.4% back towards 12.8%.

On the external account, the current account deficit spiked in Oct09 to USD531mn as against a cumulative deficit of USD540mn during 1QFY10. This was due to higher import payments; which is indicative of recovering demand in the economy. With FDI remaining weak, the balance of

payments in Oct09 was USD454mn in the red against an accumulation of USD1.8bn during 1QFY10. As a result FX reserves have dropped from their high of USD14.8bn to USD13.7bn

With inflation resurgent, external deficits widening and fiscal spending on the rise, the SBP will likely maintain a cautious monetary stance going forward. We project that the SBP will choose to keep the discount rate stable at 12.5% in its Jan09 Policy Review. We do expect further rate cuts from Mar10 onwards and project the discount rate at between 10.5%-11.0% by the end of FY10. A strengthening USD which would weaken commodity prices (especially oil) would allow the SBP to move more aggressively on monetary policy.

Asset Allocation

Asset allocation has been done in line with the investment strategy of the fund. 27.0% has been allocated to TDRs, while 26.7% have been invested in short term Treasury bills. 45.4% is being held as cash. Portfolio duration is 28 days while all holdings are rated above AA.

Investment Strategy

BECF will be following a strategy of locking in attractive rates for up to 6 months while maintaining adequate liquidity for investors. TDR rates are expected to be higher as inter-bank liquidity remains constrained and banks look to increase balance sheet size ahead of the year end. BECF will be looking to take advantage of these rates. With interest rates expected to decline in CY10, BECF will also be maintaining adequate exposure to government securities so as to generate capital gains for unit holders.

Return Risk Statistics

| | |
|-------------------------------------|---------|
| Annualized Return [November] | 11.30% |
| Annualized Return [Since Inception] | 11.30% |
| Portfolio Duration | 28 Days |
| Portfolio Standard Deviation | 0.02% |
| Average 3M Deposit Rate | 9.87% |

Asset Allocation

| Asset | Nov | Oct | Δ |
|-------------------|-------|------|-----|
| Term Deposits | 27.0% | 0.0% | 0.0 |
| COI | 0.0% | 0.0% | 0.0 |
| Reverse Repo | 0.0% | 0.0% | 0.0 |
| T bills | 26.7% | 0.0% | 0.0 |
| Accruals | 1.0% | 0.0% | 0.0 |
| Cash & Equivalent | 45.4% | 0.0% | 0.0 |

Portfolio Credit Quality

| AAA | AA+ | AA | AA- | A+ | A | A- | BBB+ | Other |
|--------|-------|--------|-------|-------|-------|-------|-------|-------|
| 26.97% | 0.00% | 73.12% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |