



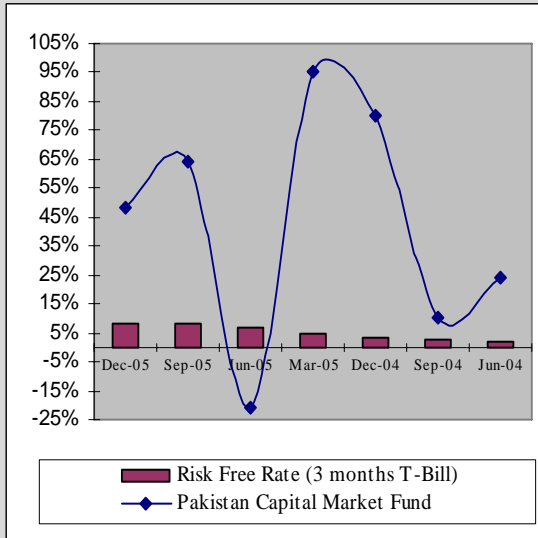
PAKISTAN CAPITAL MARKET FUND (PCM)

MUTUAL FUND RATING (MARCH 2006)

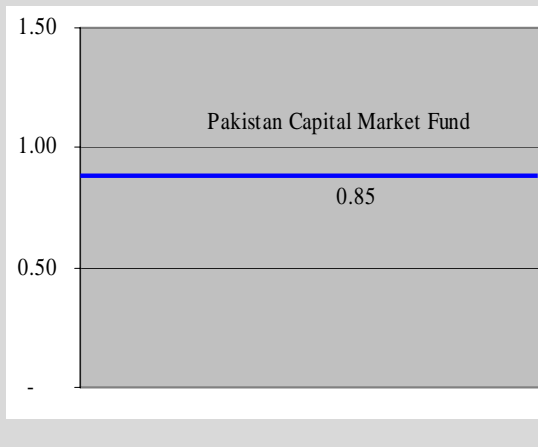


FUND:	Pakistan Capital Market Fund
FUND CATEGORY:	Absolute Return Fund
LAUNCH DATE:	January 2004
ASSET MANAGER:	Arif Habib Investment Management Limited
ASSET MANAGER RATING:	AM2 (by PACRA)

SIMPLE ANNUALISED RETURN:



SHARPE RATIO (31-Dec-05):



RATING

Pakistan Capital Market Fund (PCM) has been assigned a 5-Star rating, which reflects a superior performance. The rating is a composite measure of two factors namely a) returns and b) risk associated with the returns measured by Sharpe ratio. For computing return and risk, the performance of the fund during 7 trailing quarterly periods ended on Dec31, 2005 has been considered.

PROFILE

PCM, an open-end absolute return fund, was established under a Trust Deed executed between Arif Habib Investment Management Limited (AHIML) as Management Company and Central Depository Company of Pakistan Limited (CDC) as Trustee. The Fund was initially launched as a closed-end fund and started investment activities since January 26, 2004. PCM was converted to an open-end fund with effect from November 21, 2005.

ASSET MANAGER

AHIML, incorporated in August 2000, is one of the largest asset management companies in Pakistan managing assets of above PKR 17bln at end-05. The majority stake (62%) in the company is held by Arif Habib Securities Limited (AHS). AHS, which started as a traditional security firm, is now acquiring the character of a holding company for Arif Habib Group. AHS, through its wholly-owned subsidiary, has one of the largest brokerage operations on the KSE.

The BoD of AHIML comprises seven members. The Chief Executive, Mr. Nasim Beg, who also holds 10% shares in the company, is a Chartered Accountant with over 30 years of experience in the financial sector, including mutual fund industry. The head of Equity Funds is an MBA with over 10 years of experience in equity research and portfolio management.

AHIML has an asset manager rating of 'AM2', which reflects the company's very strong capacity to manage the risks inherent in asset management. The company is catering to different investment objectives of a diverse client base, comprising individuals and institutional investors. Due to management's special focus on retail customers and appropriate marketing strategies, nearly one-third of the funds under management of the company are from retail investors. AHIML manages four open-end funds namely, Pakistan Income Fund (PIF), Pakistan Stock Market Fund (PSM), MetroBank – Pakistan Sovereign Fund (MSF) and Pakistan Capital Market Fund (PCM), and two closed-end funds namely, Pakistan Premier Fund (PPF) and Pakistan Strategic Allocation Fund (PSAF). The company is all set to launch a Shariah compliant fund – Pakistan International Element Islamic Fund (PIEIF) – in near future, with plans to have 30% investment in foreign markets.

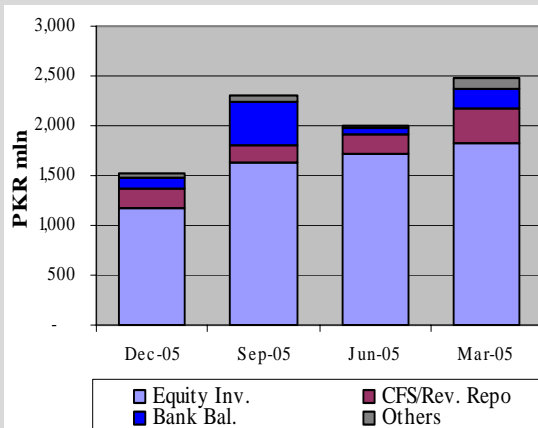
PERFORMANCE

The Fund derives its returns from the relative share of different asset classes it invests in, mainly debt and equity securities. Due to stock market's strong growth during 2005, the Fund remained invested heavily in equities during the year, constituting more than three-fourth of the total assets. The Fund has a policy of investing in shares of quality companies, having solid future earning growth and sound management, and which are attractively priced with reference to their fair values. The effective implementation of this policy, through utilizing quality system and processes, has helped the Fund in better withstanding the short-term volatility in the market thereby ensuring higher returns. The investment in debt, though remaining low due to higher return prospects in the equity market, mainly constitutes floating rate TFCs, which are linked to KIBOR and help in avoiding the interest rate risk in an increasing interest rate environment.

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ASSET ALLOCATION:



TOP 10 HOLDINGS (31-Dec -05):

Entity	Holding (%)
National Refinery Ltd.	12.2
Indus Motor Company Ltd.	10.8
Packages Ltd.	9.0
Oil & Gas Development Company Ltd.	7.5
Pakistan State Oil Company Ltd.	6.8
Nishat (Chunian) Mills Ltd.	6.1
Engro Chemicals Pakistan Ltd.	5.4
Pak Suzuki Motor Company Ltd.	4.6
Attock Refinery Ltd.	4.0
Faysal Bank Ltd.	3.1
Total	69.6

Total Equity Portfolio (PKR mln) 1,181.4
 Total Equity Portfolio / Total Assets (%) 77.4

UNIT HOLDING PATTERN (30-Jun-05):

Unit Holders' Category	%
Individuals	40.6
Corporates	0.9
Financial Institutions	16.0
Associates	35.4
Others	7.1

INVESTMENT METHODOLOGY

PCM is a broad based, absolute-return fund, investing in a combination of equity, debt and money market securities, with the underlying objective of seeking the optimum absolute return from Pakistan's capital market. The Fund does not have set allocation limits for any asset class (with the exception of an upper limit of 30% and 25% of NAV for investments in government securities and CFS, respectively) and can even invest 100% of its NAV in any class. If a particular asset class offers relatively higher return prospects than other asset class, the Fund is likely to have higher allocation in that particular asset class and vice versa.

The Investment Committee (IC), comprising the CEO, the equity fund manager and head of research department, is responsible for deciding the broader asset allocation of the Fund and making investment/disinvestment decisions relating to each class. The IC meetings are normally held thrice a week and are also called by the fund manager as and when an investment related (buy/sell) decision needs to be taken. An investment summary containing valuation data and clearly stated reasons for investing/divesting is prepared and presented to the committee and after thorough review and discussion by the members, the decision is taken. Minutes of all the meetings are prepared and filed by the fund manager.

RESERACH

AHIML has a strong in-house research division. The research team is organized primarily by industry sectors, and includes an economist for in-depth analysis of macro-economic indicators. The view of other market participants, including brokers, analysts and fund managers is also taken into account during the research process.

AHIML uses two specialized softwares, developed in house, for facilitating research and analysis work. These are Research and Analysis Database (RADS) and CFS Performance Monitoring System. These softwares help analysts forecast market trends on the basis of historical and current information and determine the fair values of selected stocks. Meanwhile, a comprehensive database is also maintained for keeping track of money market dealings and movement in interest rates and yields on government securities.

RISK MANAGEMENT & ASSET COMPOSITION

The management has developed a comprehensive risk management policy document for management of investments in equity markets and instituted detailed procedures for its implementation. The guidelines extensively cover various key risk areas. In respect of investment in debt securities, the relevant credit rating is duly considered and as a policy the asset manager refrains from investing in instruments carrying a long-term credit rating lower than 'A'.

The NAV of the fund dropped during the last quarter of 2005 due to redemption pressure after conversion to an open-end fund. The management has effectively anticipated and managed the situation through reducing exposure in the equity market and maintaining adequate liquid assets, at the time of initiation of the conversion process.

After conversion to an open-end fund, the management has adopted effective policies for management of redemption claims. In case of major redemption requests, usually above PKR 5mln, immediate measures are initiated even though on an on-going basis the major deployment of funds in liquid stocks provides flexibility in meeting redemption claims. Meanwhile, the ability to borrow funds through repo of securities, and the current T+3 settlement system, as against 6 days period for payment of redemption claims provides additional comfort

ANALYST

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RATING SCALE

- ★★★★★ Superior Performance
- ★★★★ Good Performance
- ★★★ Average Performance
- ★★ Weak Performance
- ★ Poor Performance