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Market Review & Outlook

From the CIO's Desk

Fund Managers Report - January 2024

The year 2024 commenced with a positive momentum, reminiscent of the trend observed in early December 2023, resulting in a notable upswing of up to 3.5% in the local stock exchange during the initial week. However, this buoyancy was short-lived, as apprehensions related to political uncertainties, escalating tensions on the south-western border and sizable FIPI outflow began to overshadow the optimistic market sentiment. The market closed below the 62k mark, losing 0.8% during the month. Investor engagement experienced a downturn, marked by a decrease in the average daily traded volume of 490 million, in contrast to the 1.0 billion shares recorded in December. On the economic front, there was a glimmer of relief as macroeconomic indicators portrayed a positive picture, with foreign exchange reserves reaching USD 8.2 billion, the highest since July 2023. This accumulation of reserves persisted due to a surplus in the current account in December 2023 and the receipt of the second tranche of USD 700 million from the International Monetary Fund (IMF). Despite these positive developments, foreign investors continued to be net sellers throughout the month, offloading shares amounting to USD 37.9 million across various sectors including cement, fertilizers, oil and gas exploration (E&P), and commercial banks.

In its first review of the SBA, IMF commented that majority of the performance & indicative targets, and structural benchmarks were met, which led to the immediate disbursement of the USD 700m tranche. The fund observed that the economic activity had stabilized and there were signs of it picking up supported by easing external pressures following significant shocks in FY23. The economy is expected to grow by 2% during FY24. Though inflation remains elevated, forward looking real policy rate has returned to positive territory. IMF expects inflation to decline to 18.5% and 9% by end-June 2024 and 2025 respectively, however, the staff mentions that caution is warranted and the MPC should appropriately respond if inflationary pressures re-emerge. On the external front, the fund expects CAD to clock in at USD 5.6b against USD 6.4b previously estimated and forex reserves to reach USD 9.1b by the end of FY24. While there have been notable improvements in economic indicators, the IMF underscores the challenging outlook and emphasizes the critical need for continued, timely, and consistent implementation of program policies, with strict adherence to fiscal targets. The staff mentioned that there was no room for slippage and further progress on structural reforms was needed to support stronger and more inclusive growth. On the fiscal front, the government recorded a consolidated fiscal deficit of PKR 2.4 trillion during 1HFY24, corresponding to 2.3% of GDP against 2.0% recorded last year. With tax collection amounting to PKR4.47 trillion, FBR surpassed IMF's revenue target of PKR 4.4 trillion for 1HFY24. Furthermore, the government also recorded a primary surplus of 1.7% of GDP in 1HFY24, against 1.1% last year, in line with IMF's performance criterion of primary budget deficit. Markup payments continued to dominate the expenditure side with total markup recorded at 4.0% of GDP against 3.0% last year, leaving very limited space for development expenditure. A sizeable contribution of non-tax revenues, primarily stemming from FY23's SBP profit of PKR 972 billion and petroleum development levy of PKR 473 billion bolstered the total revenue collection. However, after transfer to provinces, net fiscal revenues of PKR 4.0 trillion were not enough to cover even the debt servicing expenditure, recorded at PKR 4.2 trillion for 1HFY24. CPI for the month of January clocked in at 28.3% Y/Y, slightly above analyst expectations. Considerable increases in prices of food items, mainly chicken, tomatoes, onions and eggs contributed to the increase. Communication services, electricity charges and house rent also registered an increase, leading to M/M inflation of 1.8% against 0.8% last month. Although significantly higher than the current policy rate, the inflation continues to be on a downward trajectory. In its latest review statement, the monetary policy committee of the SBP commented that the real interest rates remained significantly positive on a 12-month forward looking basis. The committee decided to maintain the policy rate at 22%, while adjusting their expectations of average inflation in FY24 to be in the range of 23-25% (1HFY24 average 29%). The MPC foresees inflation to trend down noticeably in FY25 following lower expected inflation during 2HFY24. In view of abating price pressures, we foresee a 600-700bps cut in policy rate over the next 12 months.

On the external front, December registered a current account surplus of USD 397 million against USD 15 million deficit in November, taking 1HFY24 CAD to USD 831 million against USD 3,629 million in 1HFY23. The improvement primarily stems from a sizeable reduction of 35% Y/Y in goods trade deficit, arriving at USD 9.9 billion in 1HFY24 against USD 15.4 billion in 1HFY23. However, higher services deficit and a bigger primary income debit owing to clearance of backlog of dividend repatriation and higher external debt servicing contributed to the overall deficit build-up. Going forward, we anticipate GDP growth rate to be ~2-2.5% in FY24 owing to better crop output, and gradual uptick in demand fostering economic activity. Furthermore, we expect FY24 CAD to clock in within 1.0% – 1.5% of GDP. On the financial account, total external inflows are expected to surpass total GEFN (gross external financing requirements) for the remainder of FY24. From a fiscal perspective, we expect the authorities to meet total revenue and primary surplus targets for the fiscal year due to revenue enhancement measures taken in the federal budget, strong SBP profits, robust collection of PDL and strict control over non-interest federal expenditures. In the coming days, the local equity market should take cue from peaceful conclusion of the general elections, development on resolution of circular debt, and other reforms in compliance with the requirements of the IMF SBA. Further, it is imperative that the current SBA concludes successfully and is being followed by a back-to-back larger and longer IMF program to ensure continuity of fiscal, energy and other public sector reforms, buffer country's forex reserves and provide comfort on the external front. We recommend our investors to invest in our equity funds as per their risk appetite and return expectations. For instance, our UBL Asset Allocation Fund (UAAF) offers an appropriate strategy for investors with low to moderate risk tolerance. This fund invests in a diversified portfolio of stocks, bonds, and money market instruments. It has the potential to earn returns well above those offered in Money Market and Income Funds, while limiting risk by investing no more than 40% of its assets in stocks at any point in time. For those with a higher risk tolerance and return expectations, we have UBL Stock Advantage Fund, which offers pure exposure to the domestic equity market.

We strongly recommend our investors to also invest in our Voluntary Pension Scheme (UBL Retirement Savings Fund) in order to avail tax benefits, grow their long term savings and achieve retirement security. For those with a longer investment horizon, we recommend a high exposure to Equity Sub-Fund of the Scheme. We have been following an aggressive investment strategy in this Sub-Fund considering its long time horizon and low liquidity/redemption pressures. The strategy has performed well and the Equity Sub-Fund has generated an absolute return of 1032.52% (KSE100 Index: 503.41% since inception). This translates to an average annualized return of 19.32% p.a. (KSE-100 Index: 13.98% p.a.) - thus outperforming the KSE-100 Index by a significant margin.

The year 2024 commenced with a positive momentum, reminiscent of the trend observed in early December 2023, resulting in a notable upswing of up to 3.5% in the local stock exchange during the initial week. However, this buoyancy was short-lived, as apprehensions related to political uncertainties, escalating tensions on the south-western border and sizable FIPI outflow began to overshadow the optimistic market sentiment. The market closed below the 62k mark, losing 0.8% during the month. Investor engagement experienced a downturn, marked by a decrease in the average daily traded volume of 490 million, in contrast to the 1.0 billion shares recorded in December. On the economic front, there was a glimmer of relief as macroeconomic indicators portrayed a positive picture, with foreign exchange reserves reaching USD 8.2 billion, the highest since July 2023. This accumulation of reserves persisted due to a surplus in the current account in December 2023 and the receipt of the second tranche of USD 700 million from the International Monetary Fund (IMF). Despite these positive developments, foreign investors continued to be net sellers throughout the month, offloading shares amounting to USD 37.9 million across various sectors including cement, fertilizers, oil and gas exploration (E&P), and commercial banks.

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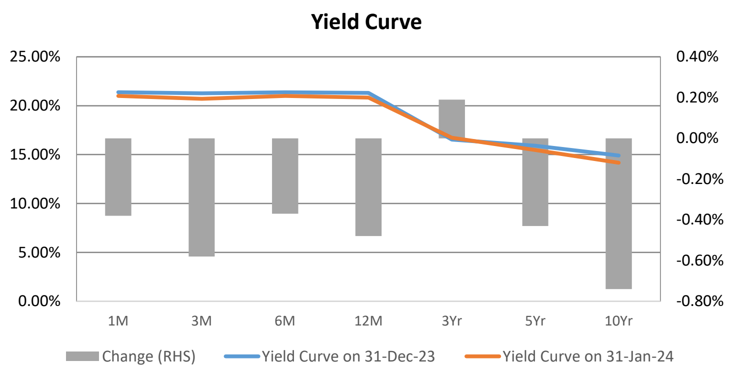
Syed Suleman Akhtar, CFA | Chief Investment Officer | UBL Fund Managers

Market Review & Outlook

Fund Managers Report - January 2024

Money Market Review & Outlook



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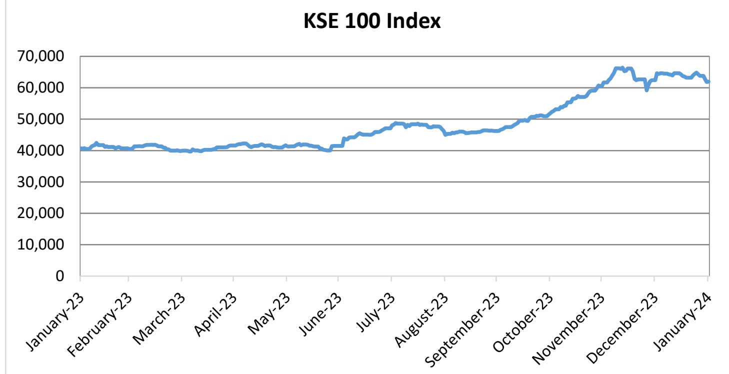
Equity Market Review & Outlook



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UBL Money Market Fund

Fund Managers Report - January 2024

Investment Objective

The objective of UBL Money Market Fund is to generate competitive returns within a low risk portfolio to provide a regular stream of income and easy liquidity to its investors by investing a major chunk of the portfolio in short term government securities.

Fund Performance

	UMMF[1]	UMMF[2]	Benchmark
FY-YTD (p.a.)	21.45%	22.38%	21.25%
January 2024 (p.a.)	20.04%	21.98%	20.16%
Since Inception (CAGR)		9.50%	9.92%
Standard Deviation*		0.32%	1.28%
Sharpe Ratio**		-1.20	-0.73
Weighted Avg Time to Maturity		41 Days	
Total Expense Ratio [3 | 5]		1.53%	
Total Expense Ratio (MTD) [4 | 5]		1.69%	
Total Expense Ratio (FYTD) [4 | 5]		1.52%	

	Dec'23	Jan'24	%
Fund Size (PKR Mn)	15,548	15,704	1.01%
Fund Size excluding FoFs (PKR Mn)	15,548	15,704	1.01%
NAV (PKR)	111.5607	113.4595	1.70%
Leverage	Nil	Nil	Nil

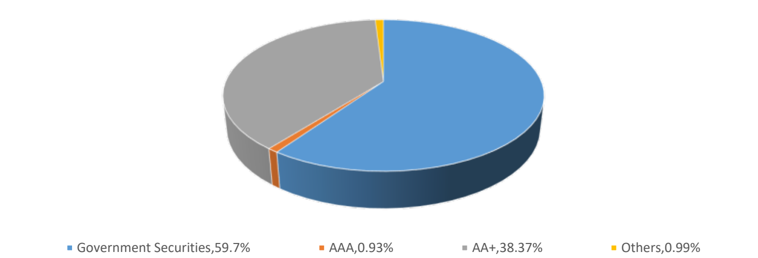
1 Simple Annualized Return | 2 Morning Star Return
* 12m Trailing | ** 12m Trailing, 3M PKRV yield is used as a risk-free rate
3 As per NBFC Regulations, 2008, this includes 0.21% representing government levy, SECP fee and sales tax.
Selling & Marketing Expense PKR 7.50 mn.
4 As per MUFAP standardized template, for MTD & FYTD, this includes 0.21% & 0.22% respectively, representing government levy, SECP fee and sales tax.
5 Annualized.
Note: Benchmark has been changed effective from October 2016; Previously 75% 3M PKRV + 25% 3M TDR (with AA or better banks)

Fund Information

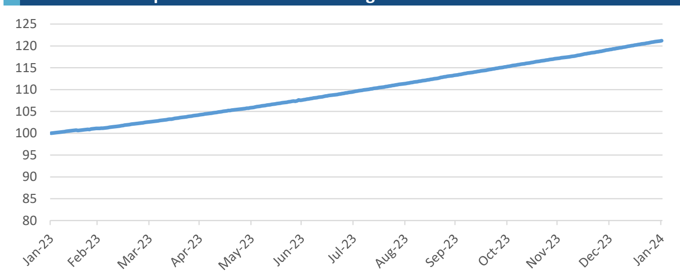
Risk Profile	Low
Fund Type	Open End Fund
Fund Categorization	Money Market
Launch Date	14-Oct-2010
Benchmark	70% Average of 3M PKRV rates + 30% 3M average deposit rate of three 3 AA rated scheduled Banks as selected by MUFAP
Listing	Pakistan Stock Exchange (PSX)
Trustee	Central Depository Company Pakistan Limited
Auditor	A.F. Ferguson & Company
Management Co.Rating	AM1 (VIS) (29-Dec-2023)
Fund Stability Rating	AA+ (f) (VIS) (29-Dec-2023)
Minimum Investment	Rs. 500/- Initial | Subsequent
Load	Upto 1% (Front-end) | Nil (Back-end)
Dealing Days	Monday to Friday
Cut off times	3:00 PM | 4:00 PM (Fri) | 9:30 AM (Same Day Redemption)
Pricing Mechanism	Backward
Management Fee*	Up to 2% of daily net assets not to exceed max. TER regulatory limit.
Fund Manager	Ghufran Ahmed
Investment Committee	Yasir Qadri | Syed Suleman Akhtar, CFA | Hadi Hassan Mukhi | Shaoor Turabee, CFA | Syed Sheeraz Ali | Ghufran Ahmed

* Actual Management Fees charged for the month is 0.96% based on average net assets (annualized).

Portfolio Quality (% of Total Assets)



Value of 100 Rupees invested 12 months ago



Return vs Benchmark

	3 Months	6 Months	1 Year	3 Years	5 Years	Since Inception
UMMF (p.a.)	20.33%	21.13%	21.19%	13.75%	12.18%	9.50%
Benchmark	20.47%	21.17%	20.63%	13.86%	12.28%	9.92%

Simple Annualized Returns | Morningstar Returns for period more than one year

Asset Allocation (% of Total Assets)

	Nov'23	Dec'23	Jan'24
Cash	9.89%	92.70%	31.19%
Placements with DFIs	0.00%	0.00%	8.12%
T-Bills	62.40%	3.37%	59.70%
Placements with Banks	2.46%	3.20%	0.00%
PIB - Floater	24.12%	0.00%	0.00%
Others	1.13%	0.73%	0.99%

Total Amount Invested by FoFs is PKR 0.00 Mn.

Monthly Yield *

	Feb'23	Mar'23	Apr'23	May'23	Jun'23	Jul'23	Aug'23	Sep'23	Oct'23	Nov'23	Dec'23	Jan'24	CYTD
UMMF (p.a.)	14.25%	17.48%	19.33%	18.52%	19.89%	21.09%	20.11%	20.94%	20.48%	19.81%	20.12%	20.04%	20.04%
Benchmark	17.30%	19.17%	20.26%	20.64%	21.14%	21.74%	21.89%	22.15%	21.55%	20.62%	20.65%	20.16%	20.16%

* Simple Annualized Returns | For periodic returns as per SECP SCD Cirular No. 16 of 2014, refer to the end of this FMR

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For Smart Whatsapp self service please save +9221-111-825-262 and send HI.

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