Mar 13, 2015

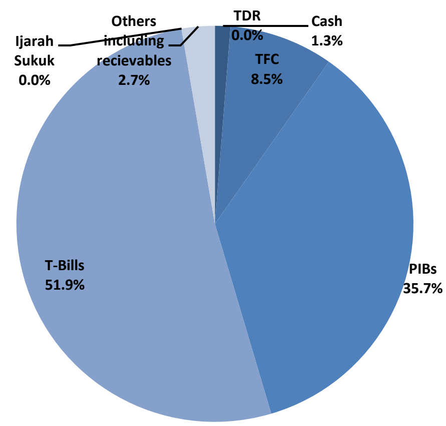
Analyst: Sobia Maqbool, CFA
Mohammad Arsal Ayub

Investment Objective

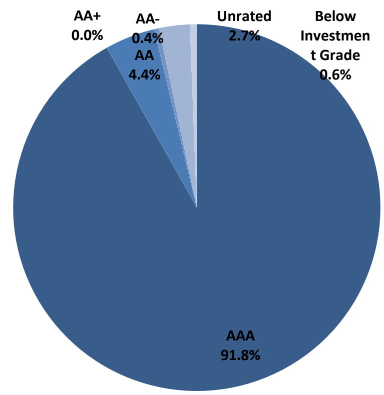
The investment objective of the fund is to provide a stable stream of income with moderate level of risk by investing in fixed income securities.

HBL INCOME FUND (HBL IF)		
Rating Category	**Latest**	**Previous**
Fund Stability Rating	**A (f)**	**A(f)**
	Mar 13, 2015	*Oct 28, 2013*
Management Company	HBL Asset Management Limited	
Chief Executive	Mr. Rehan N. Shaikh	
Fund Manager	Mr. Muhammad Amir Khan	
External Auditors – Fund	KPMG Taseer Hadi & Co	
Trustee	Central Depository Company	
Front-end Load	-	
Back-end Load	-	
Management Fee	1.5% per annum	
Benchmark	6 Month KIBOR	

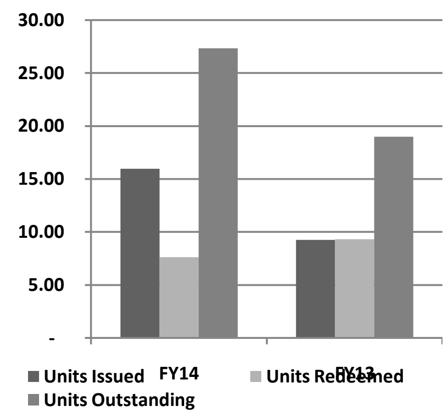
Asset Class Distribution: Mar'15



Credit Analysis: Mar'15



Investor Activity –units in million



HBL Income Fund (HBL IF) was launched in March 2007 with an objective to provide competitive returns through an investment strategy featuring a moderately risky approach. Size of the fund has showcased growth and stood at Rs. 3.8b (2013: Rs. 1.6b) at end-March 2015.

The fund's Offering Document (OD) contains a mandatory requirement to maintain at least a quarter of the fund's assets in form of cash or cash equivalents. Besides restrictions contained in the OD, the internal investment policy caps exposure to PIBs at 50% while exposure to corporate bonds is to be maintained within the range of 15-40%. As per the fund's internal investment policy, credit risk exposures can be taken in investment grade instruments, indicating capacity to assume sizable credit risk. As per minutes of the Investment Committee, the management has restricted exposure in case of debt instruments to highly rated instruments (rated AA or above) issued by the banking sector; the rating requirement is higher at 'AAA' in case of non-banking sector instruments. This may also need to be incorporated in the investment policy statement.

Actual asset allocation has remained conservative with more than two-thirds of the fund remaining invested in sovereign instruments in 2014. Latest and past exposures of the fund are provided in the table below:

Table 1: Asset Allocation

	March 2015	Average 2014
Cash	1.7%	6.1%
TDR	-	5.4%
TFC	12.1%	14.3%
PIBs	62.4%	29.5%
T-Bills	19.3%	42.0%
GoP Ijarah Sukuk	-	0.0%
Others	4.6%	2.6%

Exposure to corporate debt instruments remained below the allowable range defined in the internal investment policy. As at end-March 2015, exposure to debt instruments amounted to Rs. 0.33b. Details of portfolio composition are presented in the table below:

Table 2: Corporate Debt Instruments Portfolio (All figures in PKR Billion)

	Counterparty Rating	Outstanding Amt.
Engro Chemical Pakistan Limited	A+	0.10
WAPDA	AAA	0.10
Standard Chartered Bank Pakistan Limited	AAA	0.04
Bank Al-Habib Limited	AA	0.03
Maple Leaf Cement Company Limited	BBB	0.02
Worldcall Telecom Limited	Non-Performing	-
Saudi Pak Leasing Company Limited	Non-Performing	-
New Allied Electronics Limited	Non-Performing	-
		0.33

The management has taken provisions against majority of the non-performing exposures. The only non-performing instrument that may impact return is New Allied Electronics, against which the outstanding amount stands at Rs. 2m or 0.05% of the fund size.

Remaining exposures are mostly outstanding against counterparties with sound risk profile, including that in a restructured instrument of a cement company, financials of which have reported consistent improvement in the last year. Other non-compliances included a heightened exposure to PIBs in November 2014, which was in excess of defined threshold of 50%. As per the management, the PIBs portfolio had been enhanced in light of the expected discount rate cut in the upcoming monetary policy.

The investment policy caps the fund's Weighted Average Maturity (WAM) at 4 years (excludes sovereign instruments). Actual WAM has declined in the past 3 months as the fund decreased exposure to PIBs. The fund's WAM stood at 1.9 years as at end-March 2015. There is no maximum limit for duration in place.

Unit holder concentration in the fund is high with top 10 investors holding about 89% of outstanding units; this includes holding of AMC's sponsoring institution i.e. HBL at 46%. Retail holding in the fund was 20% at end-FY14.

Performance of the fund is benchmarked against 6-months KIBOR. Relative to benchmark return of 9.57%, HBL IF posted a return of 12.93% for period ended March 2015. The outperformance can be attributed to the successive discount rate cuts translating into capital gains on fixed income instruments held by the fund. Month-on-month return of the fund has depicted volatility which may be attributed primarily to changes in benchmark rate and the resultant impact on portfolio valuation, given that a sizeable portion of the portfolio comprises fixed rate instruments JCR-VIS

Rating History

Rating Date	Fund Stability Rating	Rating Action
13-Mar-15	**A(f)**	Reaffirmed
28-Oct-13	**A(f)**	Reaffirmed
01-Jan-13	**A(f)**	Reaffirmed
30-Dec-11	**A(f)**	Reaffirmed
01-Apr-10	**A(f)**	Reaffirmed