

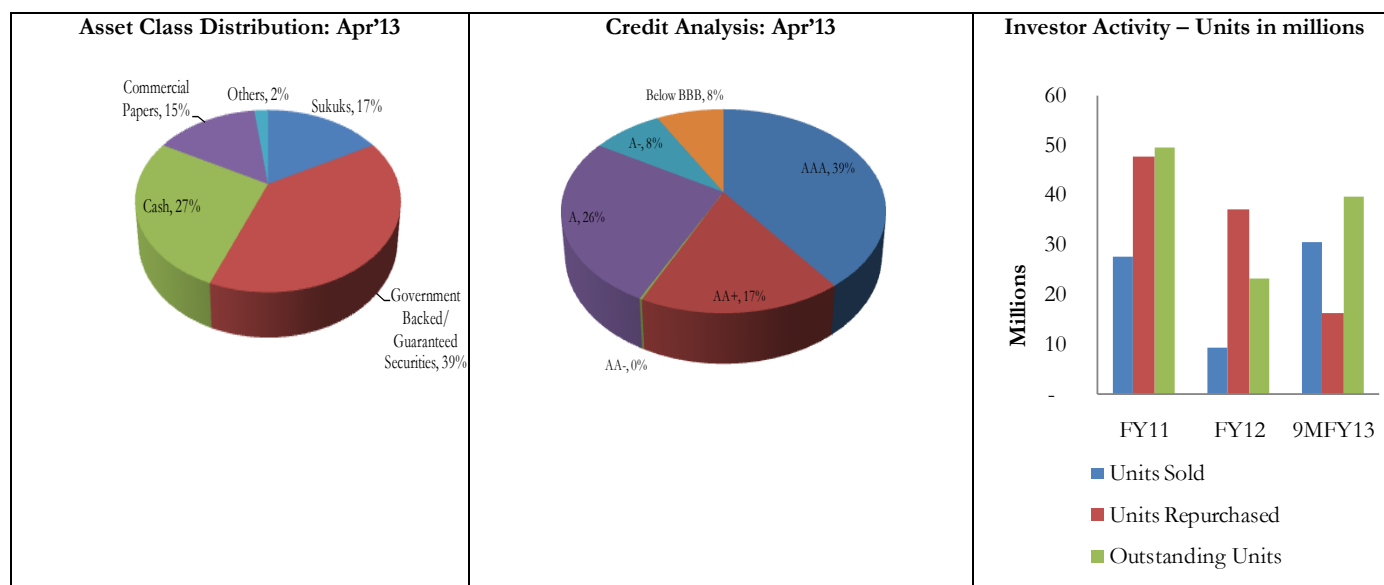
Date: Sept 03, 2013

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Investment Objective

To provide investors with a high and stable rate of current income consistent with long term preservation of capital in a Shariah compliant way. A secondary objective is to take advantage of opportunities to realize capital appreciation.

Meezan Islamic Income Fund		
Rating Category	Latest	Previous
Fund Stability Rating	A-(f)	A-(f)
	Aug 15, 2013	March 16, 2012
AMC	Al Meezan Investment Management Ltd.	
External Auditors – Fund	KPMG Taseer Hadi & Co.	
Fund Managers	Zain Malik	
Shariah Advisor	Meezan Bank Limited	
Trustee	Central Depository Company	
Front-end Load	0.50%	
Back-end Load	Contingent load for Type C Investors	
Management Fee	1.5%	
Benchmark	Average rate on deposits of 3 Islamic banks.	



Meezan Islamic Income fund (MIIF) was launched in January 2007 and is categorized as a Shariah-compliant income fund.

The investment policy of the fund as provided in the constitutive documents, allows the fund to invest in Islamic instruments such as Sukuk, Musharaka and Murabaha Instruments, Shariah compliant spread transactions and Certificate of Islamic Investments and other Islamic income products.

Salient guidelines of the investment policy are as follows:

- At least 25% of net assets have to remain invested in cash & near cash instruments which include cash in bank accounts (excluding TDRs) and T-bills with maturity not greater than three months.
- Counterparty/Instrument rating of all exposures held in the fund should be above investment grade.
- Proportion of net assets invested in non-traded securities (Reverse Repo, bank deposits, COMs with maturity exceeding 6 months) cannot exceed 15% of net assets
- Weighted average time to maturity excluding government securities shall not exceed 4 years

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Duration of the fund is targeted at less than 90 days. Exposure to interest rate risk is expected to remain within manageable limits as return on assets is pegged to market benchmark rates. Weighted average time to maturity stood at 1.17 years at end-June '13 (end-June, 12: 1.5 years).

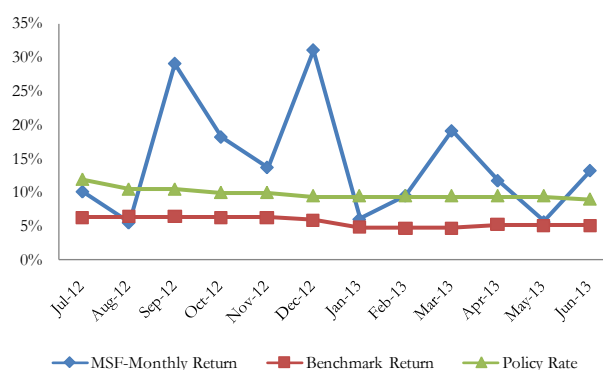
Net assets of the fund had reduced considerably in FY12 to Rs. 1.2b (FY11: Rs. 2.5b); in the out-going year, the fund has been able to recoup the same, with net assets recorded at Rs. 2.6b at end FY13. During FY13, average investment in corporate sukus stood at 26% of net assets, followed by cash and bank balances (34%), GoP ijarah sukuk (28%) and commercial paper (10%). Given high proportion of GoP ijarah sukuk, credit quality of the assets is considered sound. Corporate sukuk portfolio contains high rated instruments while the credit quality is weakened by nonperformance in case of other instruments. Risk profile of corporate debt instruments carried in the fund is presented in the following table:

Investment	Rating	As a % of Total Assets June-13
Engro Fertilizer	A-	6.5%
HUBCO (Commercial Paper)	AA+	8.3%
Maple Leaf Sukuk – 1	Restructured	3.4%
Eden Housing	Restructured	2.8%
Eden Builders	A	0.3%
Security Leasing	Restructured	0.2%

Value of restructured investments, net of provision, represented 6.7% of net assets of MIIF at end-June, 2013 (FY12: 18.4%). At end-June 2013, investments after provision in the sukuk of Maple Leaf Cement Factory Limited (MLCFL) amounted to Rs. 91.9m. Subsequent to recent restructuring, MLCFL has been making payments to the fund, though with a delay. Value of investment after provision in the sukuk of Eden Housing Limited (EHL) amounted to Rs. 77.4m at end-June 2013. While the issuer had undergone financial stress, MIIF has been receiving regular

payments. Sukuk of Security Leasing Corporation Limited (SLCL) with an investment (after provisions) of Rs. 7.0m at end-June 2013 is non-performing. SLCL is making regular payments as per its rescheduling agreement. Overall exposure of the fund to credit risk is considered manageable, assuming restructured assets continue to make payments in line with the fresh repayment terms.

Performance of the fund on a monthly basis is plotted in the following graph:



Performance of MIIF is presented as follows.

MIIF	FY11	FY12	FY13
Return	11.77%	7.79%	14.45%
Benchmark	5.88%	6.02%	5.54%

** Returns are adjusted for Worker Welfare Fund provision.

The fund's return benefited from reversal against provisions in the out-going year. With provisions to the extent of 68% and 31% taken against MLCFL and EHL respectively, repayment in line with current terms will result in reversals in provisions, enhancing the return on assets. If fund size continues to grow, the positive impact will be diluted and the fund's return will become more aligned with market benchmark rates, assuming no additional deterioration is witnessed in its risk profile.

Although investor concentration in MIIF has improved on a time line basis, there is room for further improvement. Top 10 investors held 51% of outstanding units while largest investor is AMIML with a holding of around 14% at end-Dec, 12. Proportion of

retail investors has increased over time, reducing the fund's exposure to liquidity risk JCR-VIS

Rating Date	Medium to Long Term	Outlook	Short Term	Rating Action
<u>RATING TYPE: Fund Stability</u>				
15-Aug-13	A-(f)			Reaffirmed
16-Mar-12	A-(f)			Downgrade
14-Dec-10	A (f)			Downgrade