

December 23, 2013

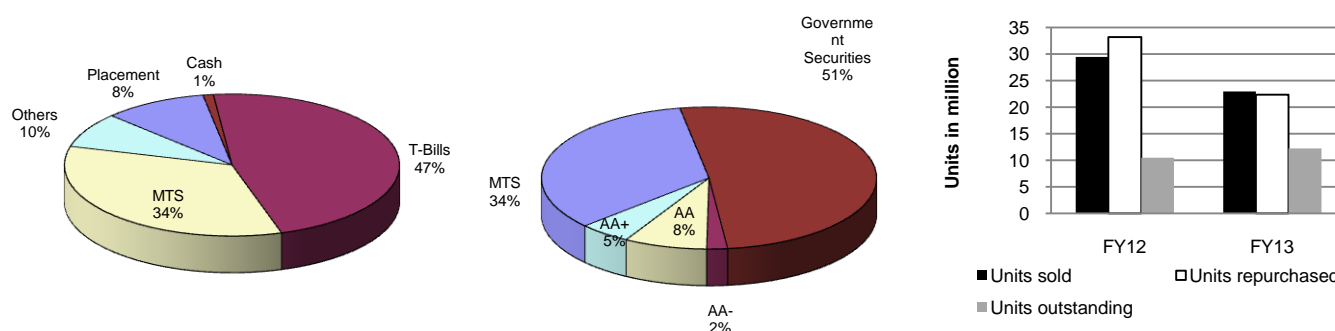
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Investment Objective

To provide competitive returns to its investors through active investments in a blend of short, medium and long term debt instruments. The fund aims to preserve capital while maximizing returns through efficient utilization of investment and liquidity management tools.

PICIC Income Fund (PICIC- IF)		
Rating Category	Latest	Previous
Fund Stability Rating	A+(f)	A+(f)
	Dec 23, '13	Aug17, '12
Management Company	PICIC Asset Management Company Limited	
Chief Executive	Mr. Mir Adil Rashid	
Fund Manager	Mr. Tauqir Shamshad	
External Auditors – Fund	A.F.Ferguson & Co	
Trustee	Central Depository Company	
Front-end Load	-	
Back-end Load	-	
Management Fee	1.25% per annum	
Benchmark	Average of 6M Kibor	

Asset Class Distribution: Jun'13	Credit Analysis: Jun'13	Investor Activity
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Launched in 2010, PICIC Income Fund (PIF) is structured as an open-end income fund. The management company has developed the portfolio allocation strategy for the fund in light of the current economic conditions and the risks associated with various asset classes. As per the Investment Policy Statement, the fund may invest in various kind of instruments.

Previously, the management had proposed to increase the minimum counterparty rating criterion for taking credit exposures from ‘A’ to ‘A+’ by making amendments to the investment policy. As delineated in table 1, the fund may assume exposure in Term Finance Certificates that are rated ‘A’ or higher. So far no exposure has been taken in this avenue and the management has communicated its plan to pursue the current strategy over the foreseeable future. The policy may nevertheless need to be revised in line with current strategy. As per the operational investment policy, the allocation limits and minimum rating requirements are as follows:

Table 1: Operational Investment Policy

Investments	Minimum Entity Rating	Maximum Exposure as % of net assets
T-Bills, PIBs & Govt. Securities	N/A	85%
Cash at bank (excluding TDRs) and short maturity of T-bills not exceeding 90 days maturity (subject to minimum limits of 25% of net assets)	A+	50%
COD, COI, COM, and Money Market instruments exceeding six months	A+	15%
Term Finance certificates-Listed and/or Government Guaranteed	A	25%
Sukuk- Government Guaranteed	A	25%
MTS Transactions	N/A	40%
Reverse Repo transactions against Government Securities and debt securities not exceeding 6 months	A	40%
Deposits with banks or Financial institutions	A+	75%
Sukuk and other asset backed or mortgage backed securities *	A+	30%
Commercial Paper**	AA-	30%

*Maximum maturity period of corporate Sukuk not to exceed one year

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*** Maximum limit for investment in any commercial paper is 5% of the issue size or net assets, whichever is lower. However the said limits may be enhanced to 10% with the prior approval of the Board of Directors / Board Investment Committee.*

Net assets of the fund have witnessed an increase on a year-on-year basis and were recorded at Rs. 1.23b (FY12: Rs. 1.06b) at end-FY13, increasing further to Rs. 1.44b by end-Nov'13.

As per the IPS, the fund can invest upto 85% of net assets in government securities while investment in MTS/CFS can be as high as 40%. Actual asset allocation has remained in line with the IPS and is presented in the table below:

Table 2: Asset allocation

Asset Allocation	June'12	June'13	Nov'13
Cash	1%	1%	9%
T-bills	69%	47%	73%
Placements	17%	8%	9%
PIBs	0%	4%	4%
MTS	0%	34%	5%
Others	21%	6%	0%

On a monthly average basis, almost two-thirds of the fund's assets have remained deployed in government securities in view of which, credit risk arising from the portfolio has remained limited. Within the fund's government paper holding, investment has primarily been manifested in T-bills. Average investment in T-bills during FY13 was 66% while maximum investment in PIBs during FY13 was 4%. The investment policy allows for exposure in margin trading system to the extent of 40% of net assets; maximum investment in this avenue at any point in time during FY13 was 34% while monthly average was 18%.

At end-FY13, 51% of the fund's net assets comprised government securities. Minimum rating of any other asset in the portfolio was 'AA-' at end-June 2013, higher than the minimum rating allowed in the policy document.

As per the IPS, the fund can extend duration up to 2 years (preferably one year). In the domestic context, where interest rates have experienced significant volatility, interest rate risk allowed as per policy can be significant. Maximum duration during FY13 was 186 days.

Return of the fund was below the benchmark (Average of 6M-KIBOR) in FY13. Highest return posted by the fund was in the month of August'2012 of 14.34% at the time of

150 bps cut in benchmark interest rate. Relative return ranking of the fund has declined in FY13 as compared to FY12:

Table 3: Fund Performance

Performance	FY12	FY13
Return	11.82%	9.52%
Maximum Return in Peer Group	15.51%	12.14%
Benchmark	12.13%	9.67%

Total number of investors in the fund were 104 (FY12: 93) at end-June'13. Share of retail investors remains limited at 3.87% (FY12: 0.75%). Proportion of investment by PICIC AMC in the fund stood at 49.3% (FY12: 48.4%). Investor profile of the fund features significant concentration as top 10 investors held 85% of the outstanding units at end-FY13 [\[JCR-VIS\]](#)

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Rating Date	Medium to Long Term	Outlook	Short Term	Rating Action
<u>RATING TYPE: Fund Stability</u>				
23-Dec-13	A+(f)			Reaffirmed
17-Aug-12	A+(f)			Reaffirmed
29-Jul-10	A+(f)			Final
31-May-10	A+(f)			Preliminary