

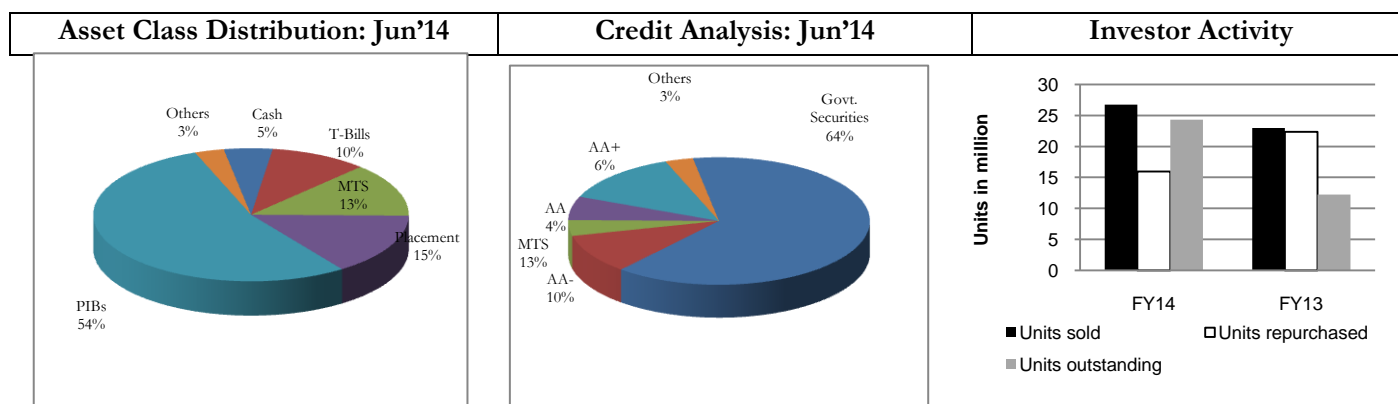
February 26, 2015

**Analysts:** Amir Shafique  
Faiq Sattar

**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	<b>A+(f)</b>	<b>A+(f)</b>
	Feb 25, '15	Dec 23, '13
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	



PICIC Income Fund (PIF) was launched on July 24, 2010 as an open-end income fund. The fund seeks to invest in a combination of Term Finance Certificates, Sukuk, Government Securities, Reverse Repos, and Spread Transactions, etc.

As per the operational investment policy, the allocation limits and minimum rating requirements are as follows.

**Table 1: Operational Investment Policy**

Investments	Minimum Entity/Instrument 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+	75%
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%

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Commercial Paper**	AA-	30%
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\*Maximum maturity period of corporate Sukuk not to exceed one year

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

Net assets of the fund have increased over time and amounted to Rs. 2.7b (end-June'14: Rs. 2.4b; end-June'13: Rs. 1.2b) at end-October'14. Asset allocation of the fund at the end of the last two years is presented as under:

Asset Allocation (PIF)		
	FY13	FY14
PIBs	4%	54%
T-Bills	47%	10%
Cash & Bank Placements	9%	20%
MTS	34%	13%
Corporate Sukuk	5%	-
Other assets	1%	3%
Total	100%	100%

Overall asset allocation has remained in line with the Investment Policy Statement (IPS). Asset quality has remained sound over the period under review. The fund continues to be primarily invested in government paper; as per month end average, almost 62% of assets remained deployed in t-bills and PIBs in FY14. About one-fifth of the assets were held as cash equivalents or placements with banks/DFIs on an average over FY14. Exposure in Margin Trading System, while allowed to the extent of 40% of assets, was recorded at a maximum of 15% at any month-end since October 2013. In recent months, the fund has also held exposure in Sukuk issue of Engro Fertilizer Limited, to the extent of 2% of assets.

Exposure in PIBs was primarily built from March onwards and has since remained 50% or higher, given the management's expectations regarding downward movement in policy rate. Accordingly, Weighted Average time to Maturity (WAM) of the fund's assets stood higher at 516 days (end-June, 2013: 106 days) at

end-June, 2014. Maximum WAM was recorded at 532 days at end-May, 2014. At end October 2014, WAM was reported at 405 days.

Total number of investors in the fund improved to 252 (FY13: 104) by end-June'14. Accordingly, share of retail investors increased to 19.9% (FY12: 3.9%). Investor concentration has improved on a timeline basis, though still continuing to be on the higher side, with top 10 investors holding 66.6% (FY13: 85.3%) of the outstanding units at end-FY14.

Performance of the fund is benchmarked against average 6 months KIBOR. In addition to depicting a decline in line with the general trend in interest rates in the market, return of the fund has remained lower than the benchmark over the last three years as assets held by the fund do not carry return pegged to Kibor. A brief overview of the fund's performance is given below:

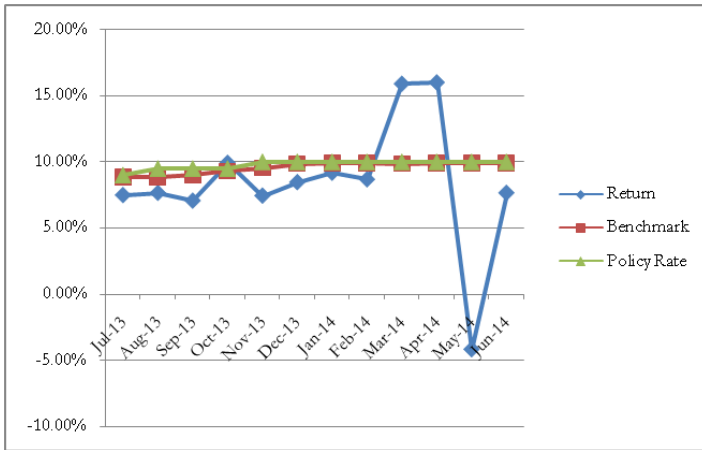
PICIC Income Fund (PIF)			
	FY12	FY13	FY14
Net Assets (Rs. Millions)	1,055	1,232	2,437
Return	11.8%	9.5%	8.8%
Benchmark	12.1%	9.7%	9.6%

A month on month analysis of returns of the fund reveals that until February, 2014 the returns remained largely stable. There were three months when returns exhibited extraordinary variation; spiking at 16% in March and April 2014 and recorded at negative 4% in May 2014; these variations were attributable to market expectations regarding policy rate and similar trend in returns was observed in case of other income funds having majority assets deployed in long term government paper.

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Returns may continue to depict some degree of variation in line with the fund's exposure to interest rate risk

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### Rating History

Rating Type	Rating Date	Medium to Long Term	Outlook	Short Term	Rating Action
<b>Fund Stability</b>	2/25/2015	A+(f)			Reaffirmed
<b>Fund Stability</b>	12/23/2013	A+(f)			Reaffirmed
<b>Fund Stability</b>	8/17/2012	A+(f)			Reaffirmed
<b>Fund Stability</b>	7/29/2010	A+(f)			Final
<b>Fund Stability</b>	5/31/2010	A+(f)			Preliminary

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