

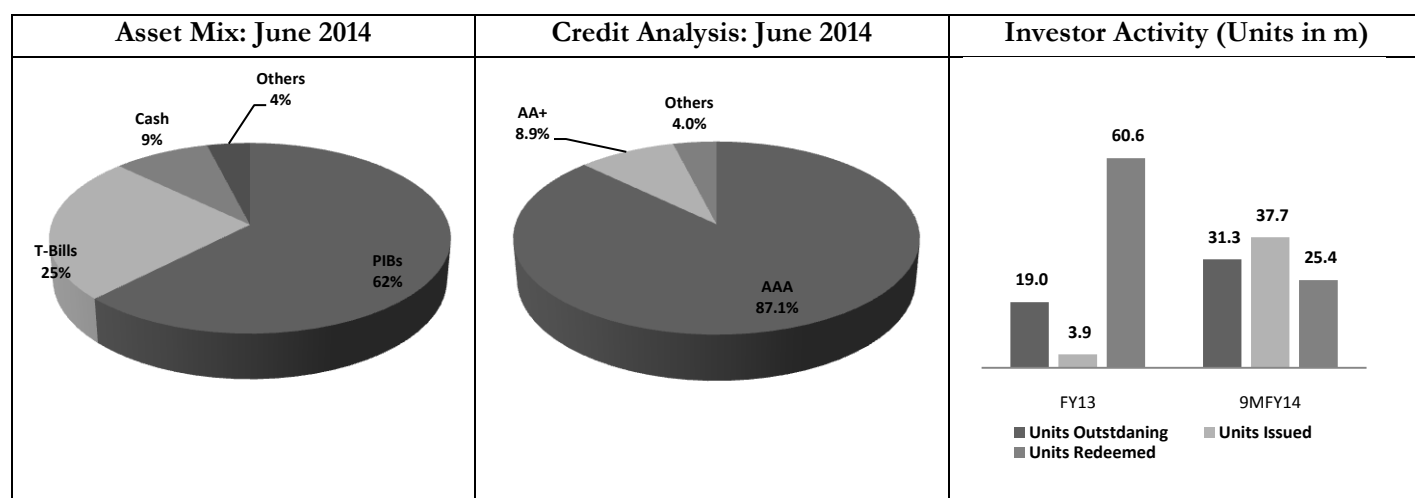
August 20, 2014

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**Investment Objective**

The objective of the fund is to generate a competitive return with minimum risk, by investing primarily in government securities.

UBL Government Securities Fund		
Rating Category	Latest	Previous
Fund Stability Rating	A+(f)	A+(f)
	Aug 4, '14	Apr 18, '13
Management Company	UBL Fund Managers Limited	
External Auditors - Fund	M/s KPMG Taseer Hadi & Co.	
Fund Manager	Mr. Usama Bin Razi	
Trustee	Central Depository Company Ltd.	
Launch Date	July 27, 2011	
Front-end Load	1%	
Back-end Load	Nil	
Management Fee	10% of all gross earnings (with min. fee of 1% p.a. & max. fee of 1.25% p.a.)	
Benchmark	70% 6M PKRV rate + 30% average of 3M deposit rates of AA- and above rated scheduled banks for the period of return	



UBL Government Securities Fund (UGSF) was launched in July 2011 with an objective to earn competitive returns by investing primarily in sovereign instruments. Investment guidelines of the fund are based on an investment horizon in excess of 1 year. In FY14, a sizable increase has been witnessed in fund size to Rs. 5.8b (June 2013: Rs. 1.9b). The increase is partly attributable to additional investment by related parties, that held 37% (June 2013: 24%) of the outstanding units at end-June 2014.

Asset allocation limits identified in the Offering Document (OD) include a minimum 70% exposure limit to sovereign instruments while at least a quarter of the fund’s assets have to be maintained in form of cash & cash equivalents (including short-term T-Bills but excluding TDRs). As per the operational Investment Policy Statement (IPS),

exposure to longer term deposits (where maturity>6months) has been capped at 15%. Minimum credit rating of any exposure has been set at ‘AA-’. Actual asset allocation of the fund is presented in the table below:

Table 1: Actual Asset Allocation

	End-June 2014	Average FY14
T-Bills	25%	49%
PIBs	63%	29%
GoP Ijarah Sukuk	-	1%
Placement with Banks	-	11%
Cash	9%	8%
Others	4%	2%

Based on month end balances, average allocation towards sovereign securities in FY14 was recorded at 78%. Within the government paper portfolio, shift towards long term

securities has been evident since February 2014. At end-June 2014 almost 63% of the assets were deployed in PIBs while the allocation to t-bills was 25%. In the earlier part of FY14, actual asset allocation has declined below the regulatory floor of 70% on some occasions; however, in recent months, exposure in sovereign instruments has been maintained well in excess of the 70% limit. As with other funds being managed by the AMC, individual counterparty exposures are sizeable in case of bank deposits, though risk is considered manageable given the nature of exposures.

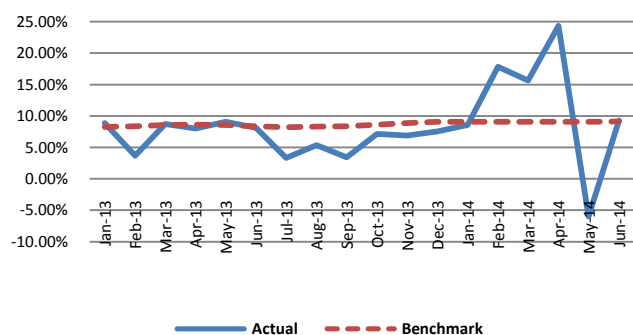
In light of the above discussion, overall risk profile of the fund is considered manageable with the most imminent form of risk being sensitivity to interest rate changes

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The IPS has capped the WAM of the fund at 4 years. Actual WAM of the fund has remained below the ceiling. In addition, the IPS has also capped the duration of the fund at 2.5 years, which was previously capped at 1 year. Actual duration of the fund at end May 2014 stood at 1.65 years. Accordingly, the fund’s ability to assume interest rate risk has trended upwards.

Benchmark of the fund is a 70:30 break-up of 6 month PKRV and 3 month deposit rates of ‘AA-’ rated banks. Actual fund performance has showcased volatility. While the current benchmark is not commensurate with the characteristics of the fund, its selection is based on non-availability of bond indices in the market. For FY14, actual return was recorded at 8.26% vis-à-vis benchmark return of 8.83%. This was slightly lower than peer group average, with peers comprising government securities funds only.

**Figure 1: UGSF Fund Performance (Actual vs Budgeted)**



With increase in related party investment, investor concentration in the fund has trended upwards. At end-June 2014, largest 10 investors in the fund held 74% of the outstanding units.

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Technical Partner – IIRA, Bahrain | JV Partner – CRISL, Bangladesh

Rating Date	Medium to Long Term	Outlook	Short Term	Rating Action
		<b><u>RATING TYPE: Fund Stability</u></b>		
04-Aug-14	A+(f)			Reaffirmed
18-Apr13	A+(f)			Reaffirmed
29-Mar-12	A+(f)			Initial

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