NAFA

NBP Fullerton
Asset Management Limited
(Formerly National Fullerton Asset Management Limited)

# Capital Markets Review and NAFA's Performance

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During the first nine months of Fiscal Year 2011, the economic indicators showed a mixed trend. Improvement was seen in the external accounts, primarily due to significant growth in exports and record workers' remittances. However, inflationary pressures persist due to excessive Government borrowing in the absence of foreign inflows and uptick in commodity prices, especially food and oil. Further, the fiscal account remained constrained due to the stubbornness of current expenditures and subdued revenue growth. Inflation is expected to persist at the present level due to the likely imposition of Reformed General Sales Tax (RGST) and other indirect taxes in the upcoming budget.

A key threat to the economy of Pakistan is a substantial increase in the international oil prices over the short to medium term. Oil prices are expected to rise due to rapid growth in oil demand in emerging countries and a slowdown in the growth of oil supply (source: IMF). Speculation in oil futures markets by large hedge funds and other investors is also expected to continue to rise. Pakistan is at least 5 years away before it can count on alternative energy resources such as coal, hydel, solar, or nuclear, and reduce its vulnerability to oil shocks. That also, if focused efforts are made and huge amounts of requisite funding for harnessing alternative energy resources is obtained. In the meantime any drastic increase in oil prices will have an adverse affect on inflation, current account deficit, currency and economic growth.

Prudent and credible macroeconomic policy measures are needed to address the structural problems. Serious efforts need to be made to increase the revenue base, contain expenditures, attract foreign inflows and improve the competitiveness of the industry.

The stock market is presently trading at a price-to-earnings multiple of 7.8x based on next four quarters of earnings. This is attractive compared to historical and regional levels. Corporate earnings are expected to rise by 20% over the next four quarters. The stock market is expected to rise in line with corporate earnings.

For the nine-month period of the financial year 2010-11, NAFA Multi Asset Fund, NAFA Islamic Multi Asset Fund and NAFA Asset Allocation Fund were ranked 1st in their respective categories. NAFA Stock Fund was the 5th best performing fund in the market among 18 stock funds. All the funds have also out-performed their Peer Group Averages and benchmarks, net of management fee and all other expenses.

The Table below shows the performance of NAFA's funds with an equity exposure versus the benchmark and peer groups.

**Performance of NAFA Funds for the nine-month period of FY2010-11**

| | Return | Benchmark Return | Peer Group Average | Rank Risk-Adjusted Return | Rank Absolute Return |
|---|---|---|---|---|---|
| NAFA Multi Asset Fund | 24.5% | 15.4% | 17.8% | 1st | 1st |
| NAFA Islamic Multi Asset Fund | 26.9% | 20.6% | 26.5% | 1st | 1st |
| NAFA Asset Allocation Fund* | 16.2% | 10.2% | 12.5% | 1st | 3rd |
| NAFA Stock Fund | 29.8% | 21.0% | 27.0% | 5th | 6th |
| NAFA Capital Protected Strategy | 15.0% | 13.1% | N.A. | N.A. | N.A. |

**Since launch of the Fund on August 21, 2010*

Source: Mutual Funds Association of Pakistan (in respect of funds only)