



# DAWOOD CAPITAL MANAGEMENT LIMITED

Fund Manager's Report - October 2010

## PAKISTAN ECONOMIC UPDATES

### Pakistan Economic Updates:

Focusing on Pakistan's macro economic picture we find lack of medium term visibility due to delays in reforms – ranging from RGST (modified VAT); elimination of subsidies in the power sector and resolution of energy sector circular debt; restructuring of public sector entities; enhancing the tax net and documenting a large swath of undocumented sector (so called cash economy). These are just a few critical elements where progress has to be made in order to get out the present fiscal crunch.

Increasing food prices owing to supply deficit, in the aftermath of recent floods, and global commodities price hike hit inflation hard. On the other hand, non-food, non-energy core inflation eased off to 9.80% YoY in 1QFY11 from 12.90% YoY in 1QFY10.

### Stock Market:

Against expectations, KSE-100 Index posted a respectable return of 5.84% (585 points rise) in October 2010 taking its financial year return to 9.02% (876 points rise). The October rally was driven by FPI to the tune of nearly US\$32mn. Daily average volume rose to 106.9 million shares, up 76% compared to last month. Further upside may be constrained by macro level concerns regarding inflation spike, delays in reform implementation and thus, potentially release of next IMF tranche. In terms of sentiments drivers, politics seems to be a secondary issue in the immediate term.

Key factor driving the market were the rumours of early approval of margin trading product. The KSE has historically been driven by leverage, and the current lower volumes is due in large part to the absence of leverage product. However, with key issues yet to be resolved, approval of leverage product may take some time.

### Money Market:

Driven by increase in foreign exchange reserves i.e. NFA, money market remained generally liquid in October 2010. CPI inflation is expected to be 15% for the year with further spike expected in December / January due to energy price increase announce by the government. In the current scenario, risk free rate (discount rate) of 13.50% and expected inflation of 15%, real interest rate remains negative. Demand for funds by the Government specially after the floods has been on the higher side which has led to crowding out of the private sector. The SBP raised its discount rate by 50 basis point in the last MPS and may further raise it in the next MPS at the end of November 2010.

In the last T-Bill auction held on October 20, SBP announced a target of PKR 95bn and accepted PKR 122.4bn against the total participation of PKR 228.6bn. Cut off yields on 3M T-Bill decreased to 12.7933% from 12.8393%, 6M decreased to 13.1193% from 13.1420%, while all the 12M bids were rejected. In the PIB auction held on October 13, after last two months unsuccessful attempts, the Government eventually raised some long term debt. It has only yielded PKR 5.8bn against the target of PKR 20bn. Bids in 3, 5 & 10 years were accepted else rejected.

INVESTMENT COMMITTEE		CUTT-OFF TIMINGS OF FUNDS			
Muhammad Saleem Munshi	Chief Investment Officer				
Muhammad Ahmed	Fund Manager				
Mustansir Shabbar	Member				
Muhammad Aamir Siddiqui	Secretary				
		Business Day	Business Hours	Cut-Off Timings	
		DMMF	Monday - Thursday	9:00 AM - 5:30 PM	9:00 AM - 5:00 PM
			Friday	9:00 AM - 6:00 PM	9:00 AM - 5:00 PM
		DIF	Monday - Thursday	9:00 AM - 5:30 PM	9:00 AM - 12:00 PM
			Friday	9:00 AM - 6:00 PM	9:00 AM - 12:00 PM

## DAWOOD CAPITAL MANAGEMENT LIMITED

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# DAWOOD MONEY MARKET FUND

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FUND STATISTICS	
Name of Fund	Dawood Money Market Fund
Structure	Open End
Industry Category	Fixed Income
Benchmark	Avg. 6 Month KIBOR (Subject to SECP Approval)
Trustee & Custodian	Bank AL Habib
Auditor	M. Yousuf Adil Saleem & Co.
Registrar	Gangjees Registrar Services
Legal Advisor	Bawaney & Partners
Launch Date	19-May-2003
Listing	KSE
Duration	Perpetual
Management Fee	1.00% per annum
Sales Load	1% Front End
Pricing Mechanism	Forward
Leverage	Nil
Risk Profile	Medium
AMC Rating	AM4+
Stability Rating	Not Rated

PERFORMANCE STATISTICS	
Net Assets	PKR 386.04 Million
NAV	PKR 69.4069
Wt. Avg. Time To Maturity	3.06 Years
Standard Deviation	0.85%
Sharpe Ratio	0.52
Information Ratio	0.49
VAMI	1.06

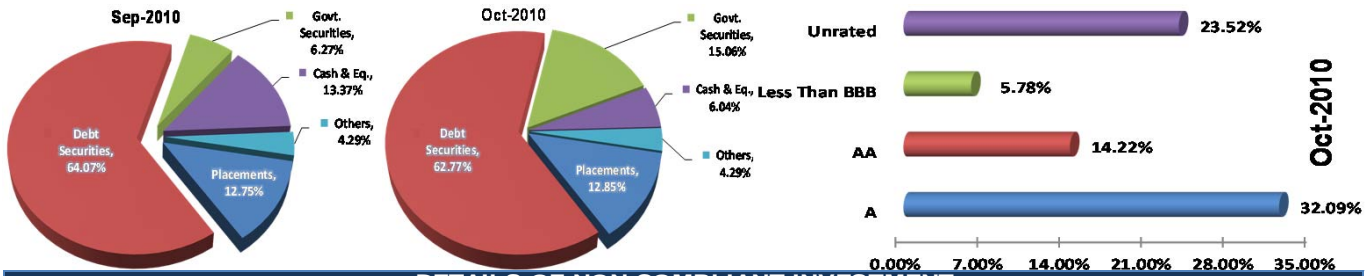
Returns	Sep-10	Oct-10
DMMF	17.02%	6.77%
Benchmark	12.91%	12.81%
Alpha	4.11%	-6.04%

HISTORIC RETURNS			
1 Month	3 Months	6 Months	YTD
6.77%	14.01%	32.55%	19.09%

**INVESTMENT OBJECTIVE**  
To preserve the investor's capital while providing a return greater than that offered by other investments of similar risk profile through investments in a portfolio of money market instruments.

Asset Mix	Sep-2010	Oct-2010
Placements	12.75%	12.85%
Debt Securities	64.07%	62.77%
Govt. Securities	6.27%	15.06%
Cash & Eq.	13.37%	6.04%
Others	3.54%	3.28%

Credit Quality	Sep-2010	Oct-2010
A	26.27%	32.09%
A+	6.34%	0.00%
AA	14.10%	14.22%
Less Than BBB	5.74%	5.78%
Unrated	11.62%	23.52%



DETAILS OF NON COMPLIANT INVESTMENT						
Name of Investment	Type	Value Before Provision	Provision (if any)	Value After Provision	% Net Assets	% Gross Assets
Engro Fertilizer Ltd. *	TFC	55,348,596	-	55,348,596	14.34%	14.22%
Optimus Ltd. *	TFC	43,487,281	-	43,487,281	11.26%	11.17%
Invest Capital Investment Bank Ltd. *	COM	50,000,000	-	50,000,000	12.95%	12.85%
Invest Capital and Investment Bank Ltd.	TFC	22,500,000	-	22,500,000	5.83%	5.78%
Invest Capital and Investment Bank Ltd.	Sukuk	15,241,923	-	15,241,923	3.95%	3.92%
Dewan Cement Ltd.	TFC	150,000,000	150,000,000	-	0.00%	0.00%
Grays Leasing Company Ltd.	TFC	5,906,250	-	5,906,250	1.53%	1.52%
New Allied Electronics Industries Ltd.	TFC	26,223,583	26,223,583	-	0.00%	0.00%
Trust Investment Bank Ltd.	TFC	33,359,888	-	33,359,888	8.64%	8.57%
Trust Investment Bank Ltd.	COI	23,041,359	23,041,359	-	0.00%	0.00%
Saudi Pak Leasing Co. Ltd	COI	98,866,669	98,866,669	-	0.00%	0.00%
Kohat Cement Company Ltd.	SUKUK	30,598,050	10,196,066	20,401,984	5.28%	5.24%
<b>Total</b>		<b>554,573,600</b>	<b>308,327,677</b>	<b>246,245,923</b>	<b>63.79%</b>	<b>63.27%</b>

DMMF TOP TEN DEBT SECURITIES		
Investee Company	Type	%
Engro Fertilizer Ltd.	TFC	14.34%
Invest Capital Investment Bank Ltd.	COM	12.95%
Optimus Ltd.	TFC	11.26%
Trust Investment Bank Ltd.	TFC	8.64%
Escort Investment Bank Ltd.	TFC	6.23%
Invest Capital and Investment Bank Ltd.	TFC	5.83%
Kohat Cement Company Ltd.	SUKUK	5.28%
NIB Bank Ltd.	TFC	4.94%
Invest Capital and Investment Bank Ltd.	TFC	3.95%
Grays Leasing Company Ltd.	TFC	1.53%
<b>Total</b>		<b>74.96%</b>

**FUND MANAGER'S COMMENTS**  
During the month of October, DMMF witnessed a positive return of 6.77% pa as opposed to 17.02% last month. This low return was due to the revaluation losses at MUFAP. We hope that these values will recover in long run. DMMF is still an extremely attractive investments for investors looking to take the advantage of the reversals and capital gains. DMMF will continue to progress in up coming months as well.

\* Limit Breach

### FUND STATISTICS

Name of Fund	Dawood Islamic Fund
Structure	Open End
Industry Category	Islamic Asset Allocation
Benchmark	25% KML-30 + 75% Savings Rate (Subject to SECP Approval)
Shariah Advisors	Prof. Mufti Munib-ur-Rehman Mufti Syed Sabir Hussain Mufti Syed Zahid
Trustee & Custodian	CDC Pakistan Limited
Auditor	M. Yousuf Adil Saleem & Co.
Registrar	Gangjees Registrar Services
Legal Advisor	Bawaney & Partners
Launch Date	14-Jul-2007
Listing	KSE
Duration	Perpetual
Management Fee	1.50% per annum
Sales Load	1.50% Front End
Pricing Mechanism	Forward
Leverage	Nil
Risk Profile	Medium
AMC Rating	AM4+

### PERFORMANCE STATISTICS

Net Assets	PKR 265.12 Million
NAV	PKR 113.3871
Wt. Avg. Time To Maturity	4.62 Years
Standard Deviation	9.05%
Sharpe Ratio	0.30
Information Ratio	0.29
Sortino Ratio	1.82
VAMI	1.15

Returns	Sep-2010	Oct-2010
DIF	17.03%	-2.76%
Benchmark	1.10%	1.65%
Alpha	15.93%	-4.41%

### HISTORIC RETURNS

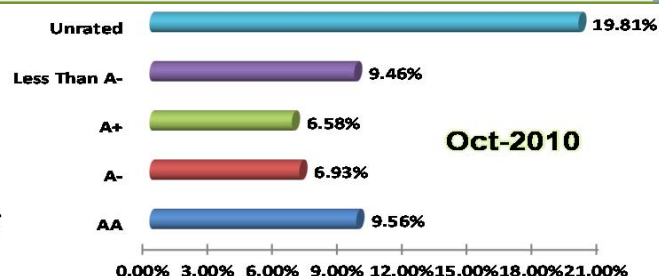
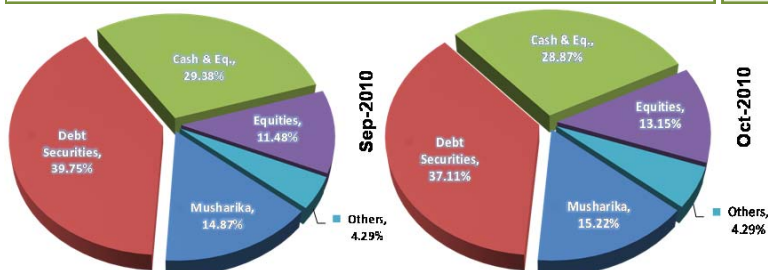
1 Month	3 Months	6 Months	YTD
-2.76%	12.60%	26.25%	14.59%

### INVESTMENT OBJECTIVE

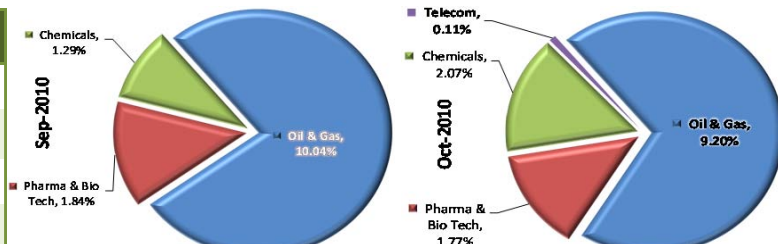
To provide Riba-Free "*Halal Munafa*" to investors by investing maximum 25% of net assets in equities, while the high percentage of non-equity income provides stability.

Asset Mix	Sep-2010	Oct-2010
Musharika	14.87%	15.22%
Debt Securities	39.75%	37.11%
Cash & Eq.	29.38%	28.87%
Equities	11.48%	13.15%
Others	4.52%	5.65%

Credit Quality	Sep-2010	Oct-2010
AA	10.07%	9.56%
A-	7.01%	6.93%
A+	6.61%	6.58%
Less Than A-	10.77%	9.46%
Unrated	5.30%	19.81%



Equity Allocation	Sep-2010	Oct-2010
Oil & Gas	10.04%	9.20%
Pharma & Bio Tech	1.84%	1.77%
Chemicals	1.29%	2.07%
Telecom	0.00%	0.11%



### DETAILS OF NON COMPLIANT INVESTMENT

Name of Investment	Type	Value Before Provision	Provision (if any)	Value After Provision	% of Net Assets	% Gross Assets
Maple Leaf Cement Factory Limited	Sukuk	48,167,561	17,403,500	30,764,061	11.60%	9.22%
New Allied Electronics Industries Limited	Sukuk	5,027,500	5,027,500	-	0.00%	4.83%
Kohat Cement Company Limited	Sukuk	24,150,000	8,047,408	16,102,592	6.07%	0.00%
Invest Capital Investment Bank Ltd. *	COM	50,000,000	-	50,000,000	18.86%	14.99%
BRR Guardian Modaraba	COM	1,119,495	335,849	783,646	0.30%	0.23%
<b>Total</b>		<b>128,464,556</b>	<b>30,814,257</b>	<b>97,650,299</b>	<b>36.83%</b>	<b>29.27%</b>

### DIF TOP TEN DEBT SECURITIES

Investee Company	Type	%
Invest Capital Investment Bank Ltd.	COM	14.99%
Engro Fertilizer Limited	SUKUK	9.56%
Maple Leaf Cement Factory Limited	SUKUK	9.22%
Shahmurad Sugar Mills Limited	SUKUK	6.93%
Pak Elektron Limited	SUKUK	6.58%
Kohat Cement Company Limited	SUKUK	4.83%
BRR Guardian Modaraba	COM	0.23%
<b>Total</b>		<b>52.33%</b>

### FUND MANAGER'S COMMENTS

During the month of October, DIF NAV decreased by 2.76% as compared to its benchmark which was increased by 1.65%. Thus DIF underperformed by 4.41%. This was mainly due to debt securities revaluations at MUFAP. We are hopeful that these values will recover in long run making DIF an extremely attractive investments for investors looking to take advantage of the reversals and capital gains.