# Fund Managers' Report
May 2022

# USSP-IX

## Why should you invest in UBL Special Savings Plan-IX (USSP-IX)?

- ✓ **Low risk** (only Govt. Securities/Min. AA- bank deposits)
- ✓ **Capital protection***
- ✓ **Competitive Regular Returns**
- ✓ **Tax efficiency****

*12 months from commencement of plan life & beyond
**Tax credit subject to Income Tax Ordinance, 2001 and lower tax (CGT) than traditional fixed income options

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**Risk profile:** Low / Low risk of principal erosion
**Fund type/Category:** Open end/Capital Protected Fund
**Benchmark:** Average of 6 Months PKRV Rates

**Disclaimer:** All investments in mutual funds are subject to market risks. The NAV of units may go up or down based on market conditions. Past performance is not necessarily indicative of future results. Investors are advised in their own interest to carefully read the contents of the consolidated Offering Document of USSF-II , in particular the investment policies mentioned in Clause 2.2.1 3, risk factors mentioned in Clause 2.7, Taxation policies mentioned in Clause 8 and warning in Clause 10 , before making any investment decision. Capital Preservation is for units held till twelve (12) month & beyond from commencement of Life of Plan.

Use of name and logo of UBL Bank Ltd as given above does not mean that it is responsible for the liabilities / obligations of UBL Fund Managers or any investment scheme managed by it.

# Market Review & Outlook

## From the CIO's Desk

**Fund Managers Report - May 2022**

With politics taking precedence over economics, the new government initially dithered on undertaking urgent policy measures to stabilize the economy, creating doubts on country's return to the pivotal IMF program in the near term. The above unnerved equity investors, causing the local bourse to decline by over 7.0% at one point before recovering in the last few trading sessions when the government announced first hike (Rs30/liter) in retail fuel prices. Overall, the benchmark KSE 100 Index fell 4.8% during May. Trading activity also declined with daily turnover averaging USD27.8mn as compared to USD31.6mn last month. Moreover, foreign selling continued amounting to USD 8.1mn during the month, while Banks/DFI mopped up shares worth USD 31.7mn.

Inflation for May arrived at 13.8%Y/Y and 0.4%M/M, below market expectations mainly due to 15.5%M/M decline in administered electricity prices and sharp fall in perishable food item prices. NCPI for 11MFY22 stood at 11.3% as compared to 8.8% in SPLY. Going forward, we foresee a sharp increase in inflationary pressures over the next few months driven by a roll back of subsidy on retail fuel prices, considerable hike in electricity and gas tariffs and their second round impact. To moderate demand to a more sustainable pace while keeping inflation expectations anchored and containing risks to external stability, SBP in its latest monetary policy review meeting decided to raise policy rate by 150bps to 13.75%. Notwithstanding the expected uptick in headline inflation in the next few months and recent rise in money market yields, we believe interest rates have nearly peaked. We expect a tight fiscal policy to pick up the slack from here to address macroeconomic imbalances.

The current account deficit for April arrived at USD 623mn, roughly around 2/3rd of March's current account deficit due to improved remittance flows (M/M: +USD 315mn) and 10.4%M/M decline in goods trade deficit. On an aggregate basis, the current account deficit totals USD13.8bn in 10MFY22 as compared to USD 543mn in SPLY. This is mainly due to increase in trade deficit by USD 12.4bn on account of strong domestic demand and elevated international commodity prices. Going forward, we expect current account deficit to decline in FY23 due to moderation in domestic demand. However, overall balance of payments position could remain under pressure due to heavy foreign debt repayments over the next 12 months.

FBR provisionally collected net revenue of PKR 5,349bn during 11MFY22 against the assigned target of PKR 5,130bn. However, the monthly tax collection for May stood at PKR 490bn against the target of PKR 511bn, reflecting a shortfall of PKR21bn. We think it will be a tall order for FBR to collect Rs751bn in June to achieve full year tax collection target of Rs6100bn. Further, due to higher subsidies, we expect fiscal deficit to come around 7.5-8.0% of GDP (revised) for the current fiscal year. Pakistan's economy has been beset by fiscal issues for the last many years. The main concerns are a narrow revenue base, lopsided distribution of revenues and expenditures among federating units and a bloated public sector. In our opinion, the country cannot achieve a sustained high GDP growth rate without addressing its fiscal problems.

Going forward, the market will take direction from any economic stabilization measures undertaken by the incumbent government, progress on IMF program, Federal Budget FY23 related news flow and movement in international commodity prices. From a fundamental perspective, we maintain a positive outlook on equities as the local bourse is currently trading at much discounted forward PE multiple of 4.3x as compared to historical PE of 8.0x. Also, market's current earnings yield differential with 10Y PIB yield is 10.6% (23.3% vs. 12.7%) which is much higher than the average yield gap of 1.1% over the last 15 years.

We recommend our investors to invest in our equity funds as per their risk appetite and return expectations. For instance, our UBL Asset Allocation Fund (UAAF) offers an appropriate strategy for investors with low to moderate risk tolerance. This fund invests in a diversified portfolio of stocks, bonds, and money market instruments. It has the potential to earn returns well above those on offer in Money Market and Income Funds, while limiting risk by investing no more than 40% of its assets in stocks at any point in time. For those, with higher risk tolerance and return expectations, we have UBL Stock Advantage Fund which offers pure exposure to the domestic equity market.

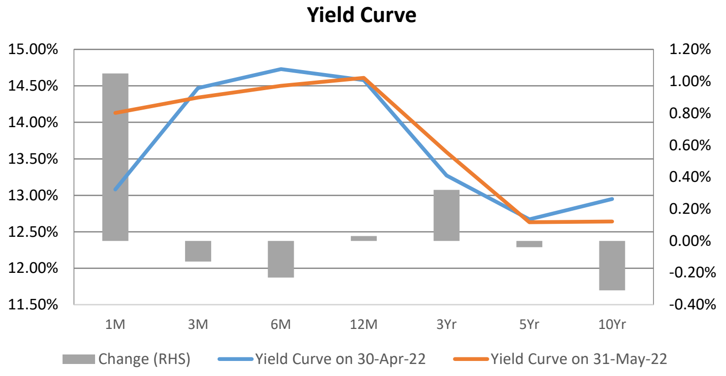
We strongly recommend our investors to also invest in our Voluntary Pension Scheme (UBL Retirement Savings Fund) in order to avail tax benefits, grow their long-term savings and achieve retirement security. For those with a longer investment horizon, we recommend a high exposure to Equity Sub-Fund of the Scheme. We have been following an aggressive investment strategy in this Sub-Fund considering its long time horizon and low liquidity/redemption pressures. The strategy has performed well and the Equity Sub-Fund has generated an absolute return of 656.63% (KSE100 Index: 319.40% since inception). This translates to an average annualized return of 18.26% p.a. (KSE-100 Index: 12.61% p.a.) - thus outperforming the KSE-100 Index by a significant margin.

**Syed Suleman Akhtar, CFA | Chief Investment Officer | UBL Fund Managers**

# Market Review & Outlook

**Fund Managers Report - May 2022**

## Money Market Review & Outlook

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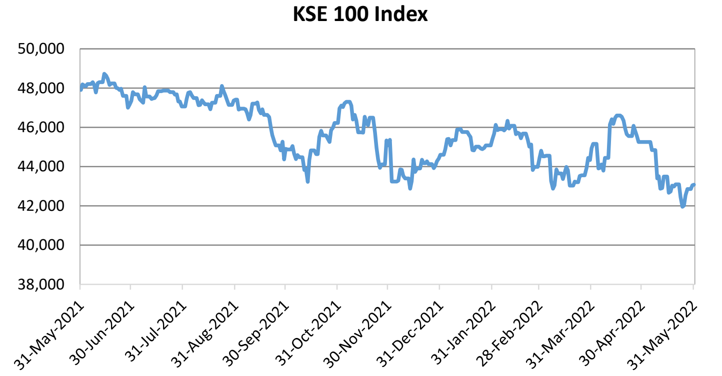
## Equity Market Review & Outlook

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# UBL Pakistan Enterprise Exchange Traded Fund

**Fund Managers Report - May 2022**

## Investment Objective

UBL Pakistan Enterprise Exchange Traded Fund (UBLP-ETF) aims to track the performance of the benchmark index in order to provide long- term capital appreciation and dividend yields to its investors.

## Fund Performance

| | UBLP-ETF | Benchmark |
|---|---|---|
| **FY-YTD** | -14.84% | -13.91% |
| **May 2022** | -6.66% | -6.57% |
| **Since Inception (CAGR)*** | 5.62% | 7.48% |
| **Standard Deviation*** | 16.43% | 17.13% |
| **Sharpe Ratio**** | -1.70% | -1.58% |
| **Expense Ratio** [1] | 1.43% | |

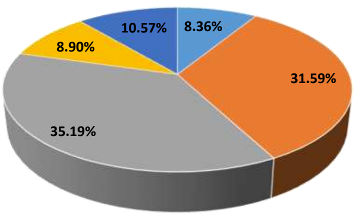
| | Apr'22 | May'22 | % |
|---|---|---|---|
| **Fund Size (PKR Mn)** | 35 | 32 | -7.97% |
| **NAV (PKR)** | 12.4707 | 11.6407 | -6.66% |

* 12m Trailing | ** 12m Trailing, 3M PKRV yield is used as a risk-free rate
***Returns have been annualized using Morningstar Methodology
1 This includes 0.12% representing government levy, SECP fee.
Selling & Marketing Expense PKR 0.00mn.

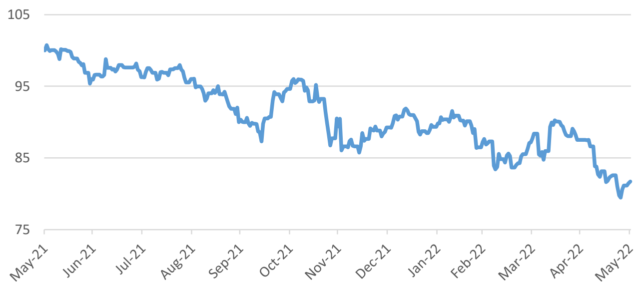
## Fund Information

| | |
|---|---|
| **Fund Type** | Open End Fund |
| **Fund Categorization** | Exchange Traded Fund |
| **Risk Profile** | High |
| **Launch Date** | 24-Mar-2020 |
| **Benchmark** | UBL PSX Pakistan Enterprise Index |
| **Listing** | Pakistan Stock Exchange (PSX) |
| **Trustee** | Central Depository Company Pakistan Limited |
| **Auditor** | EY Ford Rhodes |
| **Management Co.Rating** | AM1 (VIS) (31-Dec-2021) |
| **Dealing Days** | As per PSX |
| **Cut off times** | As per Market Hours |
| **Pricing Mechanism** | Backward |
| **Management Fee** | 0.65% p.a. |
| **Fund Manager** | Mubashir Anis, CFA (Equity Specialist) |

## Equity Sector Allocation (% of Total Assets)




## Value of 100 Rupees invested 12 months ago




## Disclosures regarding Sindh Workers Welfare Fund

During the month of August 2021, provisioning against Sindh Workers Welfare Fund by UBLP-ETF amounting to Rs. 0.05 million had been reversed on the basis of clarification received from Sindh Revenue Board vide letter No. SRB/TP/70/2013/8772 dated August 12, 2021 addressed to Mutual Funds Association of Pakistan, received on August 13, 2021. This reversal of provision has contributed towards an unusual increase in NAV of the UBLP-ETF 0.11%. This is one-off event and is not likely to be repeated in the future.

## Top Ten Equity Holdings (% of Total Assets)

| | |
|---|---|
| Engro Corporation Ltd. | 13.78% |
| Fauji Fertilizer Co. Ltd. | 13.01% |
| Habib Bank Ltd. | 12.29% |
| The Hub Power Co. Ltd. | 10.57% |
| United Bank Ltd. | 10.39% |
| Mcb Bank Ltd. | 8.91% |
| Systems Ltd. | 8.90% |
| Engro Fertilizers Ltd. | 8.40% |
| Lucky Cement Ltd. | 8.36% |

## Return vs Benchmark

| | 3 Months | 6 Months | 1 Year | 3 Years | 5 Years | Since Inception |
|---|---|---|---|---|---|---|
| **UBLP-ETF** | -6.33% | -8.59% | -18.31% | - | - | 12.71% |
| **Benchmark** | -6.11% | -8.16% | -17.39% | - | - | 17.10% |

Returns are on absolute basis

## Tracking Error Risk

| | |
|---|---|
| Tracking Error ( Absolute) | 0.04% |

## Asset Allocation (% of Total Assets)

| | Mar'22 | Apr'22 | May'22 |
|---|---|---|---|
| Equities | 94.50% | 92.35% | 94.60% |
| Cash | 2.36% | 3.89% | 0.79% |
| Others | 3.15% | 3.76% | 4.61% |
| Leverage | Nil | Nil | Nil |

## Monthly Yield *

| | Jun'21 | Jul'21 | Aug'21 | Sep'21 | Oct'21 | Nov'21 | Dec'21 | Jan'22 | Feb'22 | Mar'22 | Apr'22 | May'22 | CYTD |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **UBLP-ETF** | -4.07% | 0.34% | -0.26% | -5.92% | 4.76% | -5.55% | -0.15% | 0.63% | -2.88% | 0.52% | -0.18% | -6.66% | -8.46% |
| **Benchmark** | -4.04% | 0.47% | -0.15% | -6.04% | 5.11% | -5.39% | -0.04% | 0.73% | -2.86% | 0.64% | -0.15% | -6.57% | -8.12% |

For periodic returns as per SECP SCD Cirular No. 16 of 2014, refer to the end of this FMR

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