



Historical Performance of Key Asset Classes

We have studied the historical performance of various investment avenues such as Treasury Bills, National Savings Schemes (NSS), Pakistan Investment Bonds (PIBs), Corporate bonds (Term Finance Certificates (TFCs) / Sukuks), Equities, and Capital Protected Strategy (CPS) for the 12-year period from January 2001 to December 2012. During the same time period inflation, as measured by Consumer Price Index (CPI), averaged 9.0% per annum.

T Bills are zero coupon short term sovereign debt instrument issued in 3, 6 and 12 month tenors. National Savings Schemes (NSS) are non-tradable instruments, savings certificates and schemes with maturities ranging from 3 years to 10 years. For the purpose of our study we have used Special Savings Certificates as a proxy of NSS. TFCs / Sukuks are issued by corporations to meet their medium and long-term financing needs. Under the Capital Protected Strategy (CPS) investment is initially made in risk free asset (T-bills) and as the value of the portfolio grows it is gradually transferred to the risky asset (stock market). The total stock market capitalization is presently about US\$43 billion, while the KSE 100 Index represents 78% of the total stock market capitalization.

The historical analysis (Table 1 below) shows the nominal annualized return over the 12-year period. The Sharpe Ratio depicts the risk-adjusted returns, and it shows that the Capital Protected Strategy offered the best risk-adjusted return during the 12-year period among all asset classes. Not only the capital remained protected, but the Nominal Return of about 15% per annum, and the Real (inflation-adjusted) return of 5.5% per annum was attractive, and was achieved with a relatively low risk level (standard deviation of 8.3%). Investors should focus on real (inflation adjusted) returns while making their investment decisions.

Performance from January 2001 to December 2012

Asset class	T-Bill	Special Savings Certificate (SSC)	Pakistan Investment Bond (PIB)	Capital Protected Strategy (CPS)	Equity
Nominal return	9.2%	10.6%	12.7%	14.9%	22.3%
Inflation	9.0%	9.0%	9.0%	9.0%	9.0%
Real return	0.2%	1.5%	3.5%	5.5%	12.3%
Standard deviation (Risk)	1.4%	6.9%	13.4%	8.3%	28.1%
Sharpe ratio*	N/A	0.21	0.27	0.69	0.47
Future Value of Rs. 100 at the end of 12 years - Nominal	286	334	422	530	1121
Future Value of Rs. 100 at the end of 12 years - Real	102	119	151	189	401

*Sharpe Ratio = Excess return per unit of risk = (Expected return – Risk free rate)/(Standard deviation)

Fig 1 Future Value of Rs. 100 at the end of 12 years - Nominal

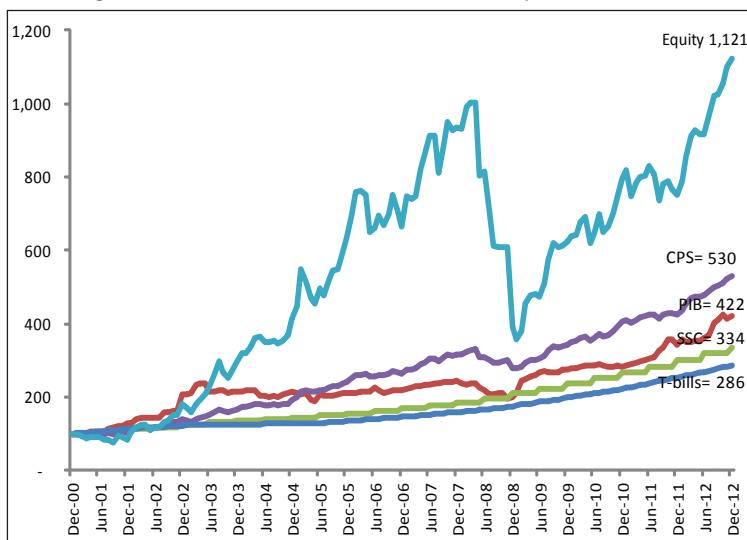
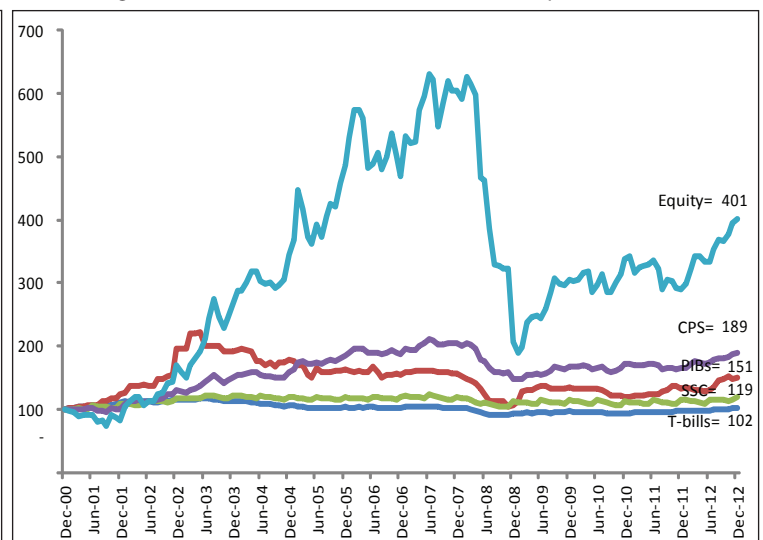


Fig 2 Future Value of Rs. 100 at the end of 12 years - Real



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