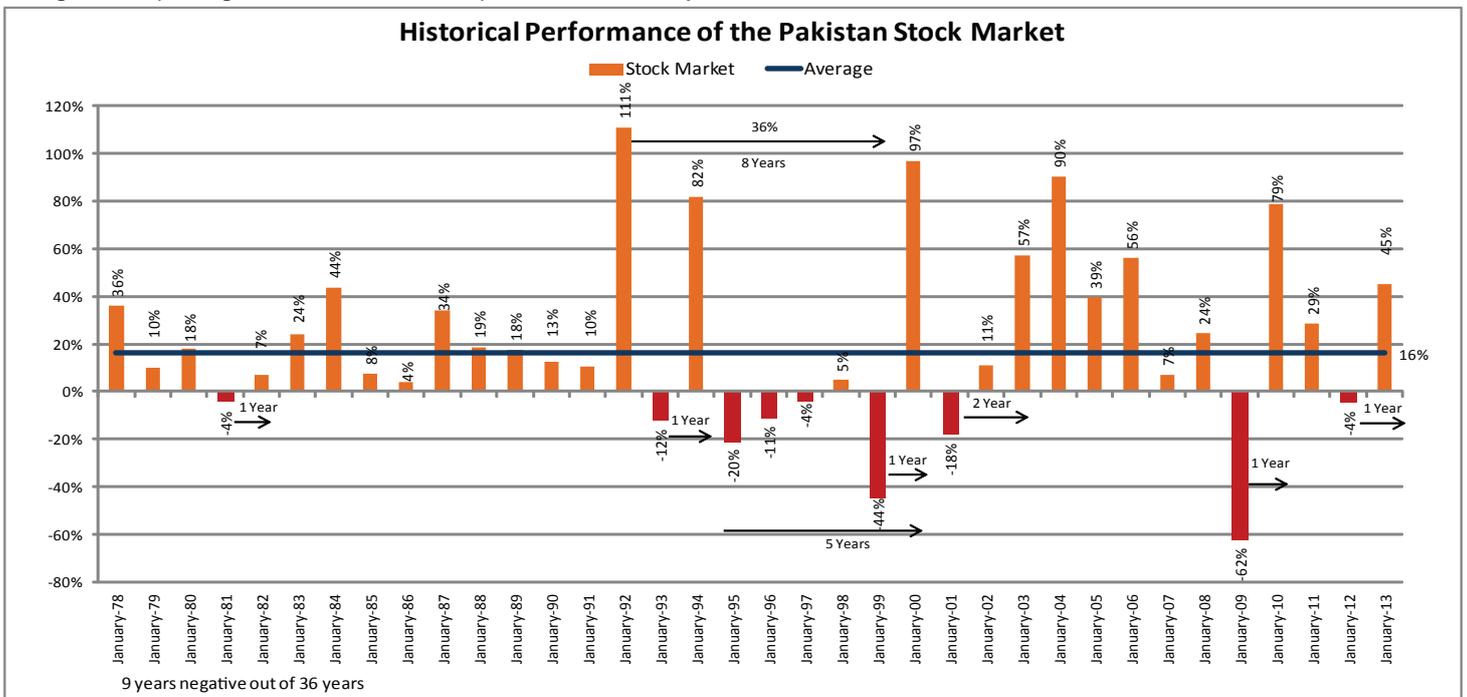




Dr. Amjad Waheed, CFA
Chief Executive Officer

In Pakistan a vast majority of investors shy away from the stock market citing high risk (volatility). Even institutional investors like trusts, endowment funds, and employees' funds are primarily invested in bank deposits, Treasury Bills, National Savings Schemes (NSS), and government bonds etc.

During the last 36 years the Pakistani stock market has depicted healthy performance, offering average return of 16% per annum. This return is much higher than inflation, currency devaluation, bank deposit rates and National Savings Schemes during the same period. However, the stock market is also volatile. During this period, there were 27 years when the stock market experienced a positive return and 9 years when it posted a negative return. As the chart below shows, the stock market recovered quickly after every decline. In the recent market crash of 2008, the stock market declined by around 62% but recovered by 79% over the next 1 year. It took a maximum 5 years for the stock market to recover after it experienced losses. Thus, investors who are invested in the stock market for the long-term – more than five years – have a very high probability of benefiting from their investment. Individual investors, who are saving for their retirement, to build a house, children marriage and education, in a few years time are recommended to have some portion of their total savings in the stock market. Similarly, since employees' funds and endowments are generally long-term in nature, they should have a portion of their investments in the stock market.



During the last 36 years, average inflation stood at 8.5% per annum while the average bank deposit rate was even lower than inflation. Thus, during this period the stock market yielded a 7.5% real (inflation-adjusted) return. This trend is expected to continue in the future as well. The Pakistani stock market posted a healthy return of 16% per year over the last 36 years despite bouts of poor economic and political situation of the country including martial laws; the two Afghan wars and their impact on Pakistan; corruption; mis-governance; and the fallout of the nuclear tests, etc.

During CY12 the stock market depicted a good performance, posting a 49% return. During the same period, NAFA Stock Fund offered 63% net returns to its investors, out-performing the stock market by 14%. Based on Thomson Reuters Lipper, NAFA Stock Fund is ranked the 28th best performing fund among 27,153 actively managed equity funds of the World in 2012. The market is currently valued at 7.2 times CY13 estimated earnings of listed companies, which shows attractive valuations. Corporate earnings have grown at a very healthy rate of 20% during the last 10 years, and are expected to grow at around 17% during CY13. A stable transition to a new elected government is also expected to improve market sentiments substantially. We expect the stock market to rise by over 20% in CY 13. Based on our track record, we expect NAFA's Equity related fund(s) to continue to outperform the stock market in CY 13 and beyond.

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