Fund Managers' Report
June 2022

UBL FUNDS

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Market Review & Outlook

From the CIO's Desk

Fund Managers Report - June 2022

Continuing its losing streak from previous month, the local bourse gave up further ground in June with the benchmark KSE 100 declining by 3.6% during the month. Notwithstanding favorable news flow on FATF, improvement in forex reserves and progress on IMF-Pakistan talks, a tough FY23 final budget, with inflationary bias and disproportionate taxation measures for the corporate sector/salaried individuals, dampened investor sentiments leading to a sell-off during the last few trading sessions of the month. The original budget failed to get the nod from IMF, forcing the government to roll back most of the relief measures. Large corporations now face additional 10% tax in 2022, which reduces to a permanent 4% in subsequent years. Foreigners remained net sellers offloading shares amounting to USD12.4mn during the month. Among domestic investors, companies and individuals remained net buyers, mopping up shares worth USD22.2mn and USD20.9mn.

June headline inflation arrived well above market consensus at 21.3%Y/Y (6.3%M/M) mainly due to long-delayed revision in retail fuel prices and electricity tariffs and their second-round impact on other prices such as food, clothing, furnishings, health etc. Moreover, inflationary pressures are also getting broad-based as captured in significant jump in NFNE core inflation to 12.3%YoY (2.1%MoM) in June. Going forward, we expect inflation to remain elevated during the next 3-4 months as second round impact of higher administered prices (retail fuel, electricity, gas etc.) sweeps through the economy. However, we believe interest rates have nearly peaked now as we foresee significant decline in demand-led inflationary pressures in the coming months on policy-induced economic slowdown and as fiscal policy picks up the slack from here. We anticipate inflation to start abating significantly in 2HFY23 with our view premised on a decline in global commodity prices and local demand softness.

Due to lower exports and remittances, improving trend in current account deficit (CAD) reversed in May with monthly deficit widening to USD1.4bn from 0.6bn in April. For 11MFY22, CAD increased to USD15.2bn from USD1.2bn during SPLY. With imports remaining elevated in June as well, Pakistan is likely to end FY22 with a CAD of USD 16.5-17.0bn. Going forward, we expect CAD to decline to USD9-10bn in FY23 on lower imports due to demand slowdown and softer commodity prices. However, overall balance of payments is likely remain difficult due to heavy loans repayments on financial account over the next 12 months. As per provisional fiscal numbers, FBR collected PKR 6.125 trillion during FY22, exceeding the revised target of PKR 6.100 trillion. However, overall FY22 fiscal deficit is expected to come at 7.5-8.0% of GDP due to higher current expenditures. For FY23, government has set fiscal deficit target at 4.9% of GDP on the back of aggressive revenue assumptions. We believe lower than targeted revenue collection and provincial surplus amid economic slowdown could limit the ability to achieve this target.

Over the last many years, Pakistan’s economy has been caught up in a boom and bust cycle. There are structural issues with the economy which prevent it from achieving a sustained high economic growth rate without creating macroeconomic stresses. The economy starts performing better when there are cyclical tailwinds and developing stresses whenever it faces cyclical headwinds. One chronic problem is the uncontrollable fiscal deficit. The main issues are 1) a narrow revenue base and a large undocumented economy 2) lopsided revenue and expenditure distribution among federating units and 3) a bloated public sector. Further, the economic growth model is overwhelmingly consumption oriented with little contribution from investments and exports. As per the latest GDP estimate, consumption makes up 96% of GDP, while investment and net exports contribute 15% and -11%.

We maintain a sanguine view on equities as the local bourse is currently trading at much discounted forward PE multiple of 4.1x as compared to historical PE of 8.5x. Also, market’s current earnings yield differential with 10Y PIB yield is 11.5% (24.4% vs. 12.9%) 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.

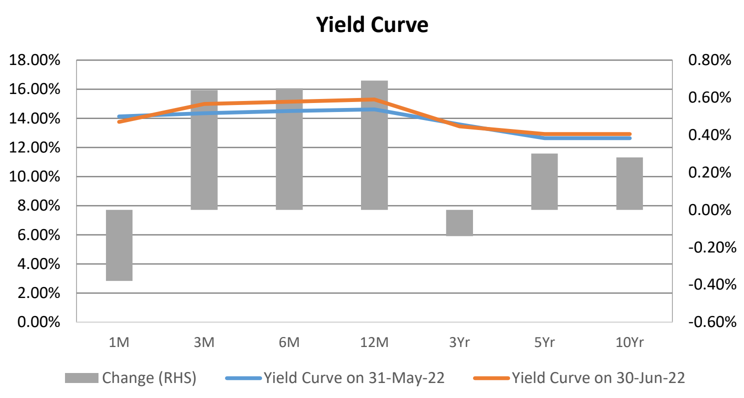
We strongly recommend our investors to also invest in our Voluntary Pension Scheme (UBL Retirement Savings Fund) in order to avail tax benefits, grow their long-term savings and achieve retirement security. For those with a longer investment horizon, we recommend a high exposure to Equity Sub-Fund of 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 631.12% (KSE100 Index: 304.43% since inception). This translates to an average annualized return of 17.79% p.a. (KSE-100 Index: 12.19% 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 - June 2022

Money Market Review & Outlook



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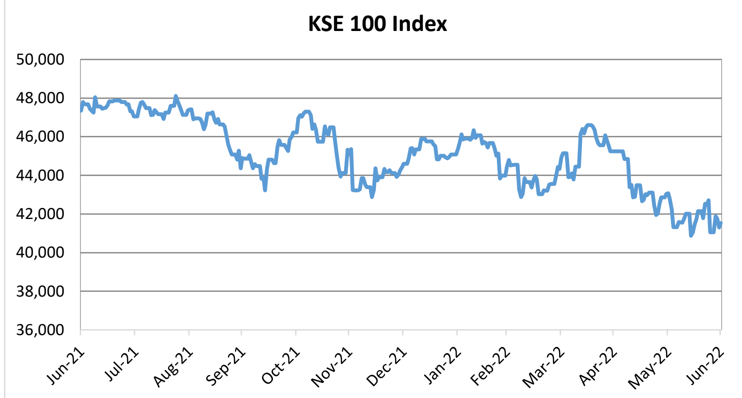
Equity Market Review & Outlook



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UBL Pakistan Enterprise Exchange Traded Fund

Fund Managers Report - June 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		-18.95%	-18.31%
June 2022		-4.83%	-5.11%
Since Inception (CAGR)* **		3.14%	4.75%
Standard Deviation*		17.62%	18.33%
Sharpe Ratio**		-1.66%	-1.56%
Expense Ratio [1]		1.55%	

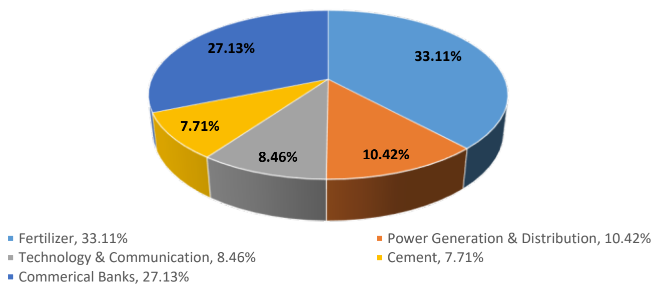
	May'22	Jun'22	%
Fund Size (PKR Mn)	32	27	-18.27%
NAV (PKR)	11.6407	10.1697	-4.83%

* 12m Trailing | ** 12m Trailing, 3M PKRV yield is used as a risk-free rate
***Returns have been annualized using Morningstar Methodology
1 This includes 0.13% representing government levy, SECP fee.
Selling & Marketing Expense PKR 0.00mn.

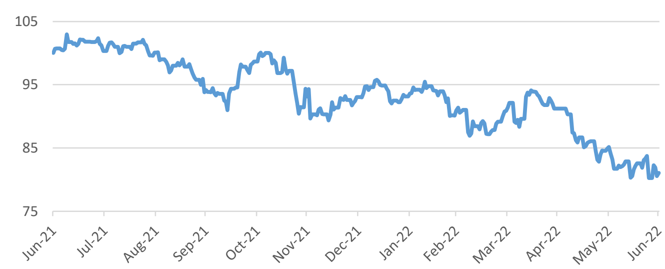
Fund Information

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



Return vs Benchmark

	3 Months	6 Months	1 Year	3 Years	5 Years	Since Inception
UBLP-ETF	-11.32%	-12.87%	-18.95%	-	-	7.27%
Benchmark	-11.48%	-12.82%	-18.31%	-	-	11.11%

Returns are on absolute basis

Tracking Error Risk

Tracking Error (Absolute)	0.04%

Asset Allocation (% of Total Assets)

	Apr'22	May'22	Jun'22
Cash	3.89%	0.79%	4.71%
Equities	92.35%	94.60%	86.83%
Others	3.76%	4.61%	8.46%
Leverage	Nil	Nil	Nil

Top Ten Equity Holdings (% of Total Assets)

Engro Corporation Ltd.	12.73%
Fauji Fertilizer Co. Ltd.	12.08%
Habib Bank Ltd.	10.50%
The Hub Power Co. Ltd.	10.42%
United Bank Ltd.	8.70%
Systems Ltd.	8.46%
Engro Fertilizers Ltd.	8.30%
Mcb Bank Ltd.	7.94%
Lucky Cement Ltd.	7.71%

Monthly Yield *

	Jul'21	Aug'21	Sep'21	Oct'21	Nov'21	Dec'21	Jan'22	Feb'22	Mar'22	Apr'22	May'22	Jun'22	CYTD
UBLP-ETF	0.34%	-0.26%	-5.92%	4.76%	-5.55%	-0.15%	0.63%	-2.88%	0.52%	-0.18%	-6.66%	-4.83%	-12.87%
Benchmark	0.47%	-0.15%	-6.04%	5.11%	-5.39%	-0.04%	0.73%	-2.86%	0.64%	-0.15%	-6.57%	-5.11%	-12.82%

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

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