

First Capital Mutual Fund Limited

NAV: PRs 11.27

Fund Management Team

Market Performance

Price Data

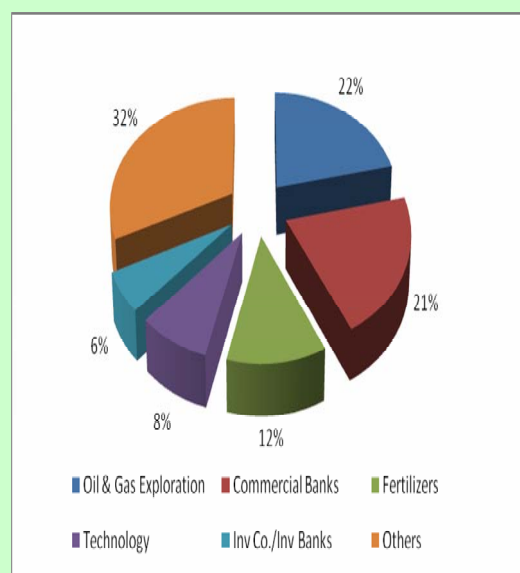
FCMF share price (Jun 30, 2008):	Rs 10.00
FCMF NAV (Jun 30, 2008):	Rs 11.27
Premium/ (Discount):	(20%)
KSE-100 Index (Jun 30, 2008):	12,289

Performance Data

Performance	NAV	KSE
June 2008	1.36%	1.31%
FY 08 to Date	-11.10%	-10.77%

Investment Objective

FCMF will seek to augment the wealth of investors through investments geared towards securing maximum returns while simultaneously offsetting resultant risks through efficient diversification across sectors with low correlation amongst them



FY08 is in stark contrast to the previous year's KSE-100 performance, and showed immense volatility, pulling the index at 12,289 level by posting negative return of -10.77%. Although, the index has declined by almost 21.6% since April 20, 08 till the end of June 08, however the abundant contribution of earlier period provided a breather to index which led it to show a meager negative return. The dismal performance of the equity markets was the global phenomenon across the world, which ensued of the sub prime mortgage crisis started in early 2007, got everyone stranded in the rambling direction. The peak ever international oil prices, coupled with the high commodities prices, weak dollar, teetering global financial system, slumping stocks were the corollary of deepened crisis which emanated in the shape of soaring inflation, high unemployment, unsustainable current, fiscal account deficits & low real growth rate. This has plagued more to the developed countries earlier due to their high exposure & more forcibly to the emerging economies due to their characteristics.

Pakistan was no exception rather it emerged as one of the worst performers against its peers. Barring the mentioned ones, Imposition & lifting of emergency, the gruesome event of PPP leader Benazir Bhutto, electorate year, wrangling war over judiciary, political turbulence in new coalition government, militant insurgency, and harshness among provinces have exacerbated the economic numbers & decimated the structural foundations of capital markets. The negative rating by international rating agencies, dwindled foreign exchange reserves, depreciation of currency, unsustainable current and fiscal A/C deficit, high inflation led by unprecedented central bank borrowing have created the jitteriness for policy makers & executives. This compelled them to take the spate action like hike the discount rate by 250 basis points since July 07, rise in CRR & SLR requirement, minimum imposition of deposit rate 5% for banks & some strict measures to curb import & outflow of foreign exchange to put the economy back on track. All these events & measures have brought the immense structural changes in the economy & its major sectors which categorized in the recessionary phase led to consolidation one.

The index has touched its peak of 15,678 in April 08, after then showed a steep down fall caused by upheavals in country. Before this, the market was stellar performer despite having adversities on political & economic front & boldly resisted on many important negative events like Red mosque event, imposition of emergency in country, negative rating, and assassination of Benazir Bhutto etc. Nonetheless, hike in discount rate & structural changes in banking, cement & textile sectors etc., coupled with the lack of proper investment framework by new government & above mentioned problems have revised the valuations across the board downwardly which played a pivotal role in the dismal performance of the market. To get the system viable & prevent the further deterioration of the market, SECP in agreed consultation with KSE have been clamping down the steps by changing the upper & lower lock system from 5% to 10%, 5% to 1% respectively & provided some relaxation measures in the margin for brokers.

Across the year, the market has observed the merger & acquisition activity of NIB with PICIC bank, Stake of Maybank in MCB, listing of HBL, GDR of UBL & Lucky cement which showed the confidence of international investors in the market & economic stability. It further increased the international stake & liquidity in the market as well. SECP has launched the new risk management system CFS MK 2 in April 07 with the implementation deadline of June 08. Capital Gain Tax has been exempted up to FY10, the decision was overwhelmingly appreciated by investors. The SCRA has showed a net outflow of US\$ 232.114 mn against the net inflow of US\$ 978.225 mn in the same period last year. However the activity of the international investor was buoyant, that has been justified by US\$ 9.13 bn cumulative inflow & outflow.

Portfolio Performance

During the year, the fund has posted a negative return of -11.20% against -10.77% return of benchmark KSE 100 index, which showed the underperformance of 0.43% (on adjusted basis). We remained invested variably in the market across the year subjected to our research oriented outlook for the market which helped us to reduce the underperformance gap from -6.0% in Dec 07 to -0.43% at the end of the FY08. There are some following important strategies adopted during the year depending upon the sector outlook:

We have observed the immense volatility in the market during all the year due to structural changes in fundamentals of market & its sectors.

- We remained invested in top weighted sectors of index like Banking, E& P, Fertilizer, Cement, Textile, Refineries, and Communication along with the valued small cap stocks.
- The fund is firm believer of research oriented buy & hold strategy except for some scrips which offer a healthy return in short span of time.
- The fund was aggressive in searching the value & growth scrips irrespective of relation with small or mid cap sectors by adopting the research oriented strategy.
- Banking sector was stellar performer until the announcement of interim monetary policy statement announced by Central Bank in May 08. We were overweight into banking scrips, reduced our exposure heavily after then on the back of minimum imposition of 5% deposit rate, hike of discount rate & bleak out look of the economy in short term.
- The major beneficiary sector due to structural changes in global & domestic outlook was E&P. High international oil prices, depreciation of rupee, discoveries in major exploration blocks, government supportive policy toward sector are some of triggers which made this sector in limelight. Your fund has been invested in E & P averagely in the range of 20% to 25%.
- Highest ever prices of food related commodities rattled the importance of agriculture sector. This sector was another star performer, led us to get high exposure for benefiting your fund.
- The scrips of communication & technology were the favorite of your fund during the year due to its strong fundamentals.
- We got better exposure in cement sector due to healthy outlook of sector at export & domestic front.
- We reduced exposure in auto sector on the back of yen appreciation , high steel prices, its sluggish demand outlook
- We have also got exposure in some small cap stocks having characteristics of either growth or value. We have identified these scrips through extensive internal research.

Future Outlook

Pakistan has been passing through the arduous time of this decade; some fear the risk of default too. All the macro indicators of the economy are posting a marring view while the bleak global outlook, the lack of investment & policy framework by the newly democratic government & heightened militant insurgency undoubtedly have been plaguing the situation more worse. The equity market has witnessed freefall in recent time due to lack of investor confidence & heavy foreign selling ,albeit, regulator & other policy makers has been taking eleventh hour decisions to protect the downside of the market. The government needs to have a comprehensive strategy to coup with such monstrous problems like high inflation, large twin deficit, depleting foreign exchange reserves, depreciating of rupee, for putting the economy at prosperous track.

Undoubtedly, the subdued performance of the market is attributable to captioned ones, albeit discounted very steeply by posting 21.6% negative return since April 08 when the market touched its peak at 15,678. The market is trading currently at 6 PE instead of 11 PE earlier which makes it cheaper in the region.

We contemplate that the equity market can't perform well despite its attractive valuation until fragile economy works out. Barring many problems, Government is not looking serious to address the urgent economic problems which may teeter the financial & political structure of the country. Since elected, the new government has been concentrating on non economic issue without considering the importance of the immediate action plan for the revival of economy amid at global financial turmoil.

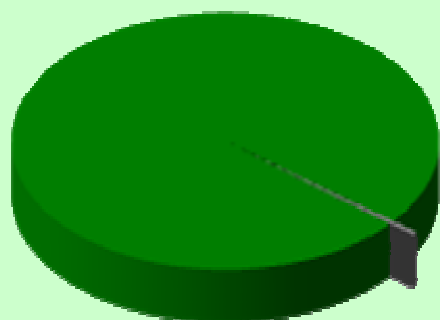
Thanks to reversal of high commodity cycle & lower international oil prices coupled with stringent measures regarding the curb of import & reduction of subsidies by government gives a breather to our Balance of payment, though still not sufficient for revival. The government is claiming many positive events to be happening in near future like Saudi Oil Facility of USD 5bn, inflow of approximately USD 3.5 bn by international donors & friends & proper investment strategy for the revival of the economy. Undoubtedly, it can provide a great assuage to the jitteriness of investors.

We are seeing the consolidation of economy characterized with the slow growth, high inflation, high interest rate, high external debt for supporting the depleting foreign exchange reserves & twin deficits. Rather than across the board, the performance of specific sectors relative to the expected outlook of the economy will be important feature of the market. Furthermore, comprehensive action plan of government & the confidence of international investor will decide the direction & performance of the market as well. Nonetheless, we can not rule out for the further monetary tightening, negative rating, implementation of revival plan (including the eliminating of subsidies completely) of international donors like IMF & taking out the harsh measures in near future.

Your fund will concentrate on developments taking place at the global financial & commodities markets coupled with relative domestic outcomes & internal matters of the country. We will play a directional strategy of the market by deciding the exposure amount taken & investing in positively correlated sectors of the economy. We will take the exposure in E&P on its hedge against inflation, currency depreciation & low regulatory risk, Fertilizer on more likely the focused sector of government & persistent domestic demand-supply gap, specific Banking scrips due to its attractive valuations, Communication due to its potential future growth in wireless & broadband business, Cement sector due its extremely attractive valuations & healthy export outlook, & some valued small cap stocks on its potential stories. Our Fund Management & Research Department will exert all its efforts to maximize the shareholders wealth & to achieve the objective of fund.

Asset Class Break-up

Equity
99.5%



Cash
0.5%

Portfolio Characteristics

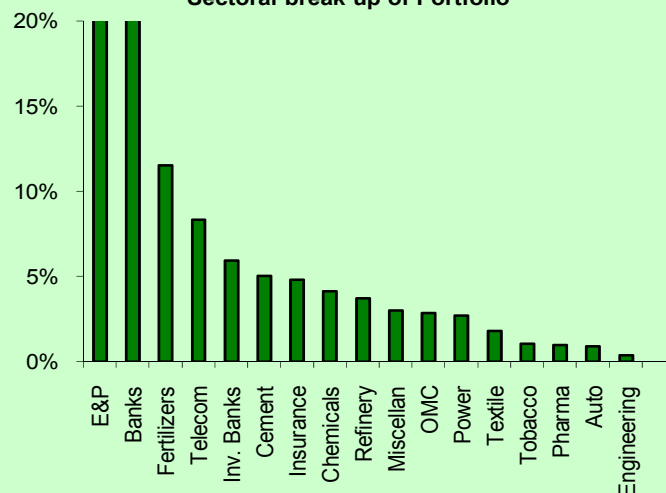
Top Five Holdings 30-06-08

Oil & Gas Development Co.
Pakistan Petroleum Ltd.
MCB Bank Ltd.
Pakistan Telecommunications Limited
Fauji Fertilizer Company

Key Facts

Launch date	24-May-95
Listed at	Karachi Stock Exchange (KSE) / Lahore Stock Exchange (LSE)
Symbol	CPMFI
Fund Type	Closed-End
Primary Investment	Equity
Investment Strategy	Value, High Yield and Growth Stocks
Par value	Rs 10/ share
Initial Paid up Capital	PRs. 150mn
Existing Paid up Capital	PRs. 300mn
Avg. Daily Turnover (FYTD)	About 24,053 shares
Investment advisor	First Capital Investments Limited
Management fee	2% of Avg. NAV
Auditor	KPMG Taseer Hadi & Co.

Sectoral break up of Portfolio



First Capital Investments Limited – Profile

First Capital Investments Limited (FCIL) is a Non-Banking Finance Company licensed to carry out investment advisory services as under the NBFC Rules 2003 and is regulated by the Securities and Exchange Commission of Pakistan.

FCIL is primarily engaged in management of mutual funds and provision of specialized investment advisory services to corporations.

FCIL is part of the First Capital WorldCall Group – one of the fastest growing conglomerates in Pakistan with interests in financial services, telecom & technology, print & media and property development.

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