

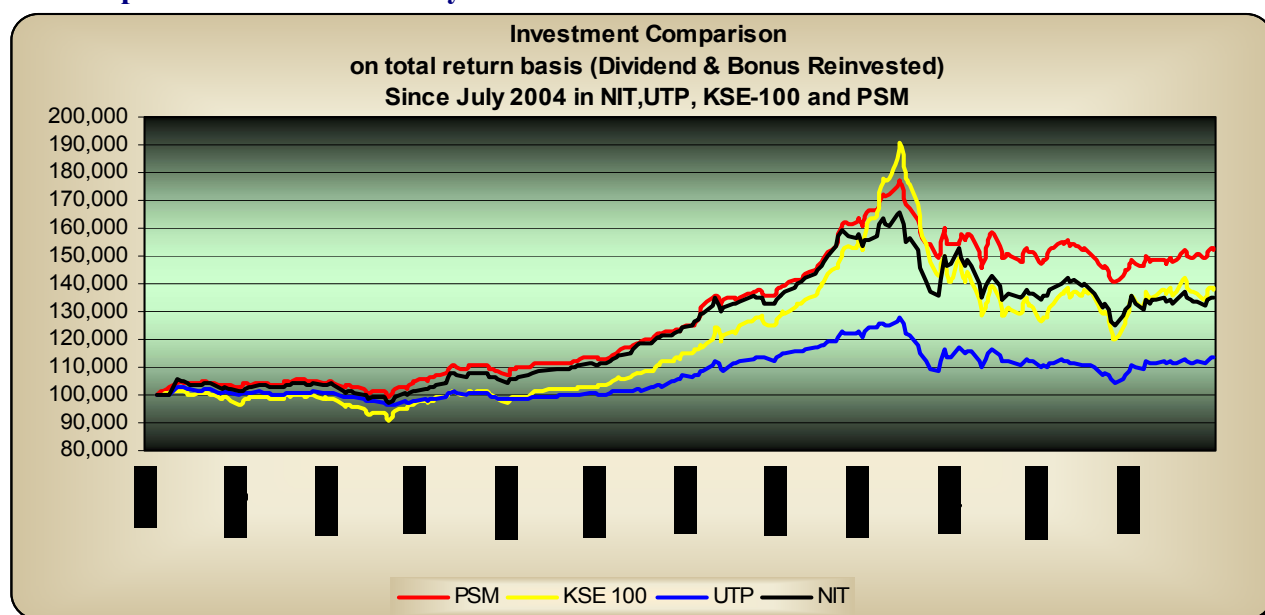
Monthly Fund Managers' Report –

For the month of June 2005

Friday, 1st July 2005

THE PAKISTAN STOCK MARKET FUND (PSM)

Relative performance from 1 July 04 to 30 June 05



The PSM has out-performed the market in FY05 by a wide margin of 11% as shown above.

Changes in asset allocation over the month of June are as follows.

ACTION OVER THE MONTH

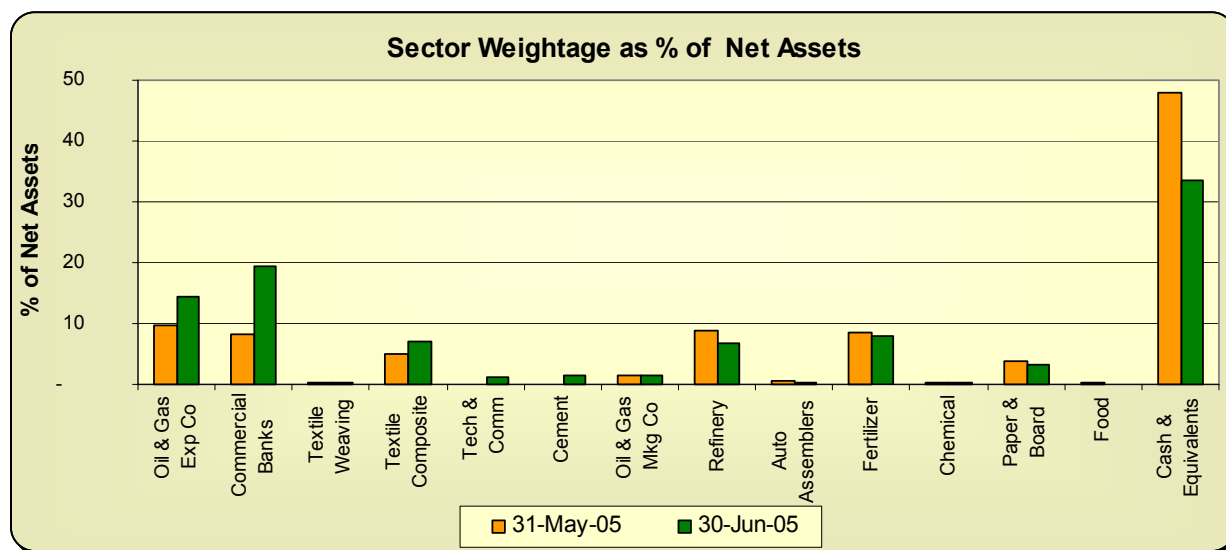
As of 30th June 2005 Net Assets under management were Rs 2,714m. The PSM's investment in shares was 68% of net assets, 32% cash and near-cash.

PSM	30th June 05	31st May 05	Month on month Change
Net Assets Rs m	2,713.80	2,310.93	17.43%
NAV per Unit Rs	115.10	109.49	5.12%
KSE-100 Index	7,450.12	6,857.67	8.64%

PSM - Overall Asset Allocation: Share in Net Assets

	30th June 05	31st May 05
Listed securities	68.19%	52.40%
Cash/Other Assets/Net of Receivables & Payables	31.81%	47.60%
Net Assets	100.00%	100.00%

Relative Performance PSM & KSE-100	30th June 05	31st May 05
For the current fiscal year, from 1 July 2004		
PSM NAV* Change	52.41%	44.98%
KSE-100 Change	41.12%	29.90%
From 1 July 2003		
PSM NAV Change	147.29%	135.24%
KSE-100 Change	118.96%	101.55%
From inception 12 March 2002		
PSM NAV Change	352.39%	330.34%
KSE-100 Change	294.63%	263.25%
* Net Asset Value		



The Fund's investment in shares was 68% of net assets. Exposure was increased in oil and gas exploration, banks, textiles and cement; sectors where we felt attractive values had been reached.

We have done worse relative to the index during June because several of our major holdings underperformed over the month namely NRL, Engro and Fauji.

THE MONTH'S MARKET REVIEW

Market's focus on PTCL alone

Developments on PTCL's privatization drove the market in June. PTCL's share price oscillated over the month, driven first by rumours on the extent of seriousness of the likely bidding firms, and then by news of delays in privatization, due to the unrest between the employees and management. Only three firms deposited the earnest money, Etisalat, Singtel and China Mobile, and speculation continued in the stock over the month.

The government finally successfully completed the privatization of PTCL at an aggressive USD1.96 per share bid by Etisalat from the UAE, that boosted sentiment across the board and rallied the market. The sale of PTCL, also has a positive overall impact on the economic outlook of the country as the government's short-term borrowing pressures have been overcome.

STOCK MARKET OUTLOOK

Market to remain in narrow band till near-term issues sorted out

Last month's concerns still remain. While the market's earnings growth momentum has not faltered, and valuations are still attractive, technical reasons are expected to keep the market range-bound for the near-term. As we said in our last report, COT unwinding pressure (Rs 13.5bn left) is expected to continue. While more than half the amount has been sold or replaced by outside the system financing, the transition from COT to margin finance will still take some time, as system and technical issues are sorted out. Fundamentally speaking, despite the decline in the ten-year PIB rate, the upward pressure on interest rates (due to fears of rising inflation because of higher oil prices) is expected to keep the market from rising strongly in the short-term.

Oil prices to drive earnings growth of the market

If oil sustains its current levels and the current refining capacity shortage persists globally, we feel earnings growth of the upstream oil and energy sector market is expected to be strong. As much as 38% of market capitalization consists of oil and energy related stocks, where earnings growth is expected to be in excess of 15%, that bodes well for their price appreciation potential.

PSM investors are clearly downside protected...

Under present circumstances, it is most appropriate for the equity investor to opt for the PSM, that has returned 52% over the year, beating the index by a clear margin of 11%. The PSM is also less volatile than the market (see below), offers more return per unit of risk (as demonstrated by the Sharpe ratio) and is protected on the downside.

	KSE-100	PSM
Volatility	1.76x	1.20x
Sharpe ratio	0.09x	0.15x

...Proof lies in the numbers

Investors must realize, the significance of the PSM's downside protection. The market fell on 104 days out of the 251 days it traded in the last fiscal year. **To give an idea of the PSM's consistency of performance, the PSM fell by a lesser degree than the market, on 92 out of 104 days the market fell – an outperformance rate of 88%.** What this means is that the value

of your investment is protected – on most occasions, it is not expected to fall by as much as the market declines on any one day.

If you invest directly in shares in a volatile market, there is a greater chance of entering into stocks at too high a level or selling (when cash is required) when prices are down – which means there is greater risk of mistiming your investment. In a mutual fund like the PSM that is less volatile than the market and more stable, there is a lower risk of buying high and selling at a low price.

Top Ten Holdings of the PSM

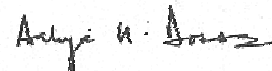
Pakistan Oilfields, National Bank, Faysal Bank, OGDC, National Refinery, Bank of Punjab, Engro, Fauji Fertiliser, Nishat Mills, Nishat Chunian.

Discounts for the closed-end funds

Closed-end Funds last declared NAVs 24 May

	NAV Rs per share	Market Price Rs per share	Discount
Pakistan Capital Market Fund*	12.91	11.20	13%
Pakistan Premier Fund	18.42	14.60	21%
Pakistan Strategic Allocation Fund	11.96	8.70	27%

* being converted to open-end very shortly



Aaliya K. Dossa
EVP – Equity Funds