

IGI INCOME FUND

Fund Manager's Report



Disclaimer

All Investments in Mutual Funds are subject to market risk. The NAV based prices of units & any dividends/returns thereon are dependent on factors affecting the financial markets. These may go up & down based on market conditions. Past performance is not necessarily indicative of future results. Please read the fund's Offering Document on www.igifunds.com.pk for detailed information prior to investment.

IGI Income Fund

Investment Objective

The investment objective of IGI Income Fund (IGIIF) is to minimize risk, construct a liquid portfolio of fixed income instruments and provide competitive returns to the Unit Holders. The management team shall ensure the active implementation of prudent investment practices, the highest professional standards and compliance with applicable laws.

Fund Performance

IGI Income Fund (IGIIF) grew in size to PKR 3.29 billion and the NAV per unit was PKR 103.3211 as at October 31, 2007. The annualized return for IGIIF for October 2007 was 9.27% while the Fund's benchmark, the average Ask Rate for 1-month KIBOR, was 9.80%.

Weighted average duration of portfolio of IGIIF is 6 months. With respect to performance, IGIIF stands in the top quartile of all fixed income funds with a Standard Deviation of 0.26% and Sharpe Ratio of 0.61 calculated against IGIIF benchmark of 1-month KIBOR on monthly return basis. Standard deviation has come down by 3bps compared to last month.

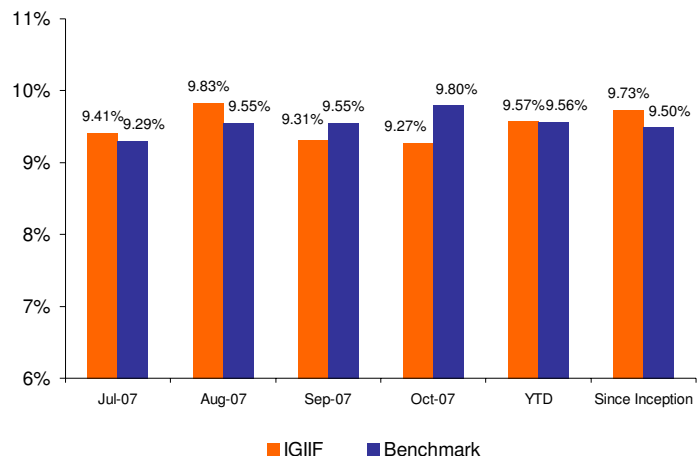
During October, IGIIF used the proceeds from maturities of short term TDRs to increase exposure in high yielding TFCs by 6% and money market placements by 4%. No exposure was taken in the ready/future spread transactions as the stock market was very volatile. This has helped us in reducing the volatility and keeping the standard deviation far below the market average of 0.84%.

Going forward, IGIIF will continue to focus on high yield instruments, placements with low interest rate risk and volatility, and on new TFC issues with good credit quality and competitive pricing.

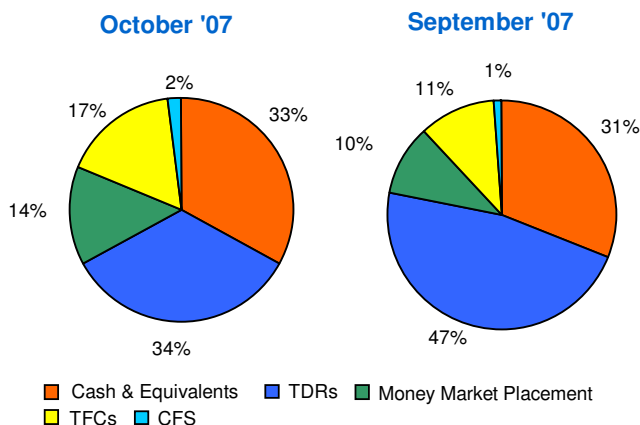
Fund Details

Asset Management Company	IGI Funds Limited
Fund (Open/Closed)	Open-end
Fund Lifespan	Perpetual
Dealing Frequency	Daily
Capital Gains Tax	Exempt
Pricing	Forward day (NAV based)
Sales Load	Currently 0%
Asset Class	Fixed Income
Management Fee	1.25%
Holding Period	None
Minimum Initial Investment	Rs. 5,000/-
Minimum Subsequent Investment	Rs. 1,000/-
Trustee	CDC Pakistan Limited
Auditor	KPMG, Taseer Hadi & Co.
Fund Manager	M. Umair Chauhan

Performance Comparison



Portfolio Allocation



Fund Facts

Fund Size (31-Oct-07)	PKR 3.289 billion
NAV (31-Oct-07)	103.3211
Return (October 2007)	9.27%
Standard Deviation	0.26%
Sharpe Ratio	0.61

Market Review

Fixed Income Market

Money market remained mostly illiquid during October with overnight REPO rates averaging around 9.75%. Commercial banks approached the State Bank almost on a daily basis to avail the discount window at 10%. The State Bank has been pursuing a tight Monetary Policy strategy in its efforts to bring down inflation – but with rising energy and food costs, the results have not been to their satisfaction.

The State Bank conducted three auctions during October – two for Treasury Bills and one for PIBs. The combined target for the two fortnightly T-Bill auctions was PKR 35 billion. It received bids of PKR 29.5 billion and accepted PKR 26.9 billion, leaving the yields unchanged. Although the target for the PIB auction was set at PKR 15 billion by the SBP, it received bids of PKR 22.3 billion but accepted PKR 15.1 billion with marginal increase in cut-off rates.

6-month KIBOR averaged 10.00% whereas 1-month KIBOR averaged 9.80% for the period under review. The spread between the two benchmarks has narrowed to 20bps from previous average spread of around 65bps due to the persistent tightness in the money market; especially in the shorter tenors. The latest report released by the State Bank shows the Advance-to-Deposit ratio of commercial banks down at 68% - indicating a slowdown in the growth of the private sector credit. This has resulted in commercial banks lowering their rates on TDR.

The secondary market for TFC appeared quieter compared to the last few months. One of the reasons for this lower activity in the secondary market was the renewed interest in CFS as its rates firmed with the improvement in the stock market. CFS investment, with a maximum time horizon of one month, appeals to Fund Managers as a viable option when its rates improve. Another reason for the relative inactivity was the improved activity in the primary market with new TFC offerings available at attractive yields.

Key Interest Rates

KIBOR (1M, 3M, 6M, 12M)	9.79%, 9.80%, 9.98%, 10.45%
T-Bills (3M, 6M, 12M)	9.18%, 9.20%, 9.39%
PIBs (3Y, 5Y, 10Y, 15Y, 20Y, 30Y)	9.62%, 9.80%, 10.19%, 11.10%, 11.35%, 11.65%
Repo (O/N, 1M, 3M, 6M, 12M)	9.95%, 9.23%, 9.22%, 9.25%, 9.40%

Stock Market

During October, the market witnessed volatile movements with the first half dominated mostly by bulls and most of the second half with bears. The KSE-100 index was finally up by 968 points or 7.2% and closed the month at 14,321 points. Market continued to breach its previous record levels despite the prevailing uncertainties on the political front and deteriorating law & order situation. During the month, the KSE-100 index touched its all-time high level of 14,787 points. Oil sector remained upbeat on account of record international oil prices.

On the CFS front, investments increased by PKR 5 billion during the month to close at PKR 54.8 billion while CFS rates moved down by 10bps to 11.01%. Open interest in Futures increased by PKR 4 billion and at month-end it stood at PKR 10.7 billion.

Future Outlook

Last month's outflow from the banking system is gradually finding its way back into the system and the tight short-term liquidity condition in the money market is expected to ease off to some extent. We feel that the SBP will continue its monetary tightening as food inflation is not letting the CPI settle down. CPI for the month of September 2007 was 8.4% on the back of very high food inflation. Keeping in view the record international oil prices, we expect a raise in domestic oil prices as the oil import bill will continue to widen the trade deficit.

TDR rates may see some hike toward the year-end but we should not expect last year-end rates. Credit off-take from commercial banks has not kept pace with its deposit growth and that has left the banking system with excess liquidity as many corporate entities are increasingly financing their projects through TFC offerings. If the liquidity persists in the banking system, TDR rates will remain subdued.

With declining yields on majority of the investment avenues we expect fund managers to explore opportunities in government securities as the PIB market may offer relatively decent yield.

IGI

Funds

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