September, 2007

IGI INCOME FUND

Fund Manager's Report

IGI

Funds

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.

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 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/-
Issue Price	NAV (no load)
Trustee	CDC Pakistan Limited
Auditor	KPMG, Taseer Hadi & Co.
Fund Manager	M. Umair Chauhan

Fund Performance

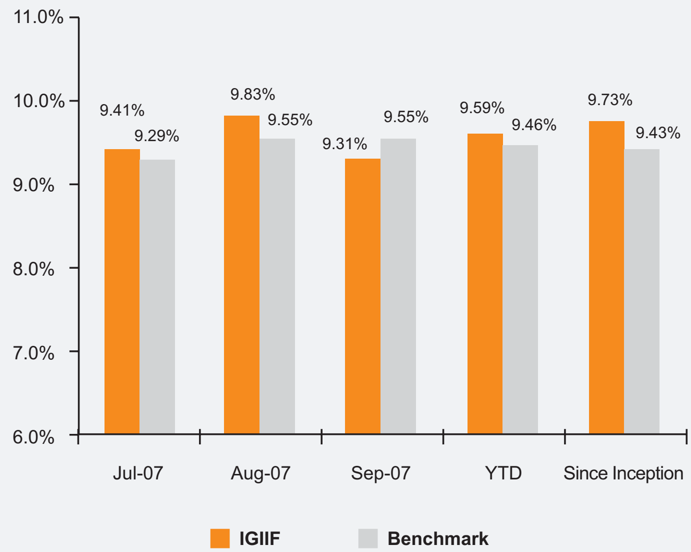
IGI Income Fund (IGIIF) grew to PKR 3.157 billion and the NAV per unit was PKR 102.5139 as at September 30, 2007. The annualized return for IGIIF for September 2007 was 9.31% while the Fund's benchmark, the average Ask Rate for the 1-month KIBOR, was 9.55%. The yield was slightly lower for the month of September due to an anomaly in the zakat system that all AMCs need to resolve through the platform of MUFAP.

Weighted average duration of portfolio of IGIIF is 4.13 months. With respect to performance, IGIIF stands in the top quartile of all the fixed income funds with a Standard Deviation of 0.29% and Sharpe Ratio of 1.04 calculated against IGIIF benchmark of 1-month KIBOR on monthly return basis. Performance of IGIIF on technical parameters like Standard Deviation and Sharpe Ratio denotes that it is providing excess return due to prudent investment decisions without taking too much risk.

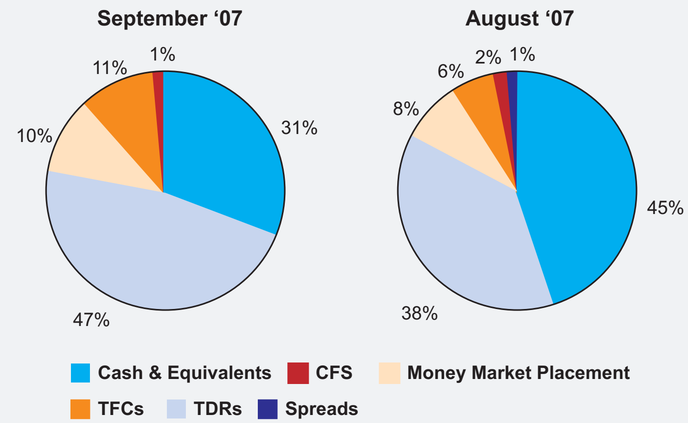
During September, IGIIF used its liquidity to place funds in TDRs at attractive rates and increased its exposure in TDR by 9% in different tenures. Another major change in asset allocation was the increase in exposure of TFCs by 5%. This includes investment in some fresh issues as well as buying from the secondary market.

Going forward IGIIF will continue to focus on high yielding instruments and placements with low interest rate risk and volatility. If the CFS rates continue to rise, we plan to increase exposure in CFS to some extent.

Performance Comparison



Portfolio Allocation



Fund Facts

Fund Size (30-Sep-07)	PKR 3.157 billion
NAV (30-Sep-07)	102.5139
Return (September 2007)	9.31%
Standard Deviation	0.29%
Sharpe Ratio	1.04

Fixed Income Market

Overnight rates during the early part of September were around 9.00% but stretched to higher levels of around 9.70% to 9.80% due to a direct hit from the trio effect of sales tax, Zakat and festive withdrawals (Ramadan). Heavy outflows from the banking system before the start of Ramadan mainly due to the Zakat factor and Sales Tax withdrawals from the banking system, expected around PKR 15-20 billion, aggravated the liquidity crunch. Banks had to approach the State Bank of Pakistan (SBP) for discounting amounting to over PKR 100 billion for the period under review.

SBP conducted two T-Bill auctions during the month and accepted PKR 46 billion against a target of PKR 30 billion and kept the weighted average yields unchanged. In both auctions no bids were received for 3 and 6 month T-Bills. The SBP also announced a PIB auction to be conducted on October 9, 2007 for all PIB tenures. A target of PKR 15 billion has been set for this auction.

6-month KIBOR for September averaged 10.01% and 1-month KIBOR (benchmark for IGIIF) averaged 9.55%. KIBOR rates in the shorter tenures remained stable while in the longer term KIBOR slipped. Commercial banks have recently started focusing more on raising funds in longer tenures. TDR rates of Banks are continuously on the decline and one-year TDR rates are in the range of 10.50-10.75% as compared to around 12.00% during this time last year. Fresh inflow in the fixed income funds have enabled leasing companies and modarabas to raise long-term funds from these sources at attractive KIBOR linked rates through COIs and COMs. Some activity was seen in the secondary market in a couple of commercial papers that are trading at premium.

TFC secondary market appeared slightly calmer in comparison to the last few months where yields on most listed TFCs have come down to around 10.25% compelling fund managers to focus more on longer term TDRs that still offer better yields. Fresh TFC offerings are still getting strong response from fund managers as well as other market players as they still offer good yields and an opportunity for Capital Gains.

Key Interest Rates	
KIBOR (1M, 3M, 6M, 12M)	9.58%, 9.71%, 9.97%, 10.47%
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

September brought some breathing space for investors as the market witnessed broad-based volume-supported bullish rally in almost all the major sectors. The much awaited rally in the energy sectors (including E&P, Refinery, OMC) on the back of improved oil & gas production numbers for August coupled with a discovery at Hala with PPL being a major stakeholder and all-time high international crude prices led the index to 13,000 level. On the other hand, the prevailing uncertainty on the political front continues to keep investors guessing about the direction of the market. The KSE-100 index closed the month at 13,354 up 1,139 points or 9.3% from August.

Recovery in the stock market has pushed the CFS rates upward to 11.11% from 10.50% last month. Total CFS investment also increased from PKR 42 billion in August to PKR 51 billion.

Future Outlook

As the commercial banks continue to raise funds aggressively at cheaper rates we expect the banking system to remain liquid and with no growth in credit off-take we do not foresee any hike in TDR rates in the near future. If the inflow of funds continues in the banking system at the same pace, we will see further downward adjustment in TDR rates. On the other hand, we expect the SBP to continue with its tight, and maybe even tighter, monetary policy stance as the food inflation is not letting CPI settle down. International oil prices are at record levels and, at some stage, the government may have to raise domestic oil prices in order to cover its loss of revenue that will further affect CPI adversely.

As the stock market will be marching towards its new highs, ready/future spreads will keep on declining and in some stocks they may even be negative. However, CFS rates will improve if the volumes keep on increasing and we will again see CFS investment at the capped level of PKR 55 billion, shortly.

Activity in the TFC market has been greatly influenced by the rates in the CFS market. When CFS rates were at two-year lows, funds were transferred from CFS to TFC and we expect that if the CFS rates will improve, activity in TFC market will again decline and we may see some correction in TFC prices.

IGI

Funds

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