

Pakistan fund eyes growth despite violence

By Peter Apps

LONDON - Political uncertainty, occasional bomb blasts and border militant insurgency do not stop Pakistan being a good investment destination, one of the first funds to target the country says, comparing the economy to a smaller India.

The Melchior Selected Trust Pakistan Opportunities Fund, launching this month and aimed at ultimately reaching some \$200 million in Pakistani equities, says the country has been poorly portrayed and its economic fundamentals remain appealing.

"We believe Pakistan has been treated unfairly by the international media," David Graham, partner of fund manager Dalton Strategic Partnership.

Pakistan's immediate political future remains uncertain after parties supporting President Pervez Musharraf were defeated in an election while al Qaeda this week claimed responsibility for Monday's suicide car bomb attack on the Danish Embassy in Islamabad that killed six people.

"In looking at the Pakistan market, we see many similarities with India," Graham said, noting Pakistan had been described as "India at half the price".

Along with China, India has attracted vast fund volumes from emerging investors in recent years.

Despite political problems including the assassination of former prime minister Benazir Bhutto late last year, Graham said the economy continued to grow at 7 percent year-on-year fuelled both by its own domestic demand as well as inflows from the Middle East -- which has itself benefited from record oil prices.

Graham said 3 million Pakistanis worked in the Gulf economies, sending money home and further fuelling the economy

He said the country was in some ways a safer and more established bet than some other "frontier markets", which have benefited this year from investors seeking to move beyond more conventional emerging destinations.

The Karachi stock exchange is down 6.7 percent so far this year, but the fund said it expected to see good prolonged growth.

"Notwithstanding the strong rise in the market over the past six years, the Karachi stock market is poised to benefit from the continued growth in the economy," said Naz Khan, chief executive officer of KASB Funds in Karachi which is advising Dalton.

"We like the energy and banking sectors and fertiliser, chemicals and cement should all do well."

He said Pakistan already produced some 30 percent of its own energy requirements and this was set to grow with new exploration.



The young population of 160 million was increasing their personal debt from a low base, boosting spending power and increasing demand for mobile phones, cars and other goods.

Karachi Stock Exchange was one of the world's least correlated with markets in the United States, he said, providing good diversification from any Western economic downturn.

Khan said there was no reason to be particularly concerned by ongoing tensions along the border with Afghanistan, where Pakistan had fought intermittent battles against the Pakistani Taliban fighters.

"We have locked horns with India many times along the border with them in the last few decades," he said.

"This is just a different border and it shouldn't affect the overall economy."