

AM2+

Rated by PACRA & VIS with a
Stable Outlook

پاک قطر
PAK-QATAR
ASSET MANAGEMENT

WHEN BOND YIELDS CHANGE WHAT HAPPENS TO YOUR INCOME FUND?

Interest rates, bond prices and fund returns

Why yield changes matter

For income and other fixed-income funds, yields and prices are closely linked

The question



When interest rates change, investors often wonder how these movements will affect their mutual fund investments.

The key factor



For income and other fixed-income funds, one of the most important factors to understand is the relationship between bond yields and bond prices.

Why it matters



A change in market yields can affect the value of securities held by a fund, influencing its Net Asset Value (NAV) and short-term performance.

Understanding this relationship helps investors make informed decisions and maintain a long-term perspective.

Yields and prices

Bond yields and bond prices generally move in opposite directions

When market yields rise



The prices of existing fixed-rate bonds tend to fall.

When market yields decline



The prices of existing fixed-rate bonds tend to rise.

A fundamental principle



This inverse relationship is a fundamental principle of fixed-income investing.

Worked example: a 12% coupon bond

An existing bond pays a fixed annual coupon of 12%

New bonds offer 14%



The existing 12% bond becomes relatively less attractive (comparable new bonds offer 14%).

Its market price may decline until its yield becomes competitive with prevailing market yields.

New bonds offer 10%



The existing 12% bond becomes more attractive (comparable new bonds offer 10%).

Its market price may increase.

Yields up, prices down. Yields down, prices up.

Pakistan, September 2026

Treasury-bill yields rose even though the SBP left its policy rate unchanged

11.99%

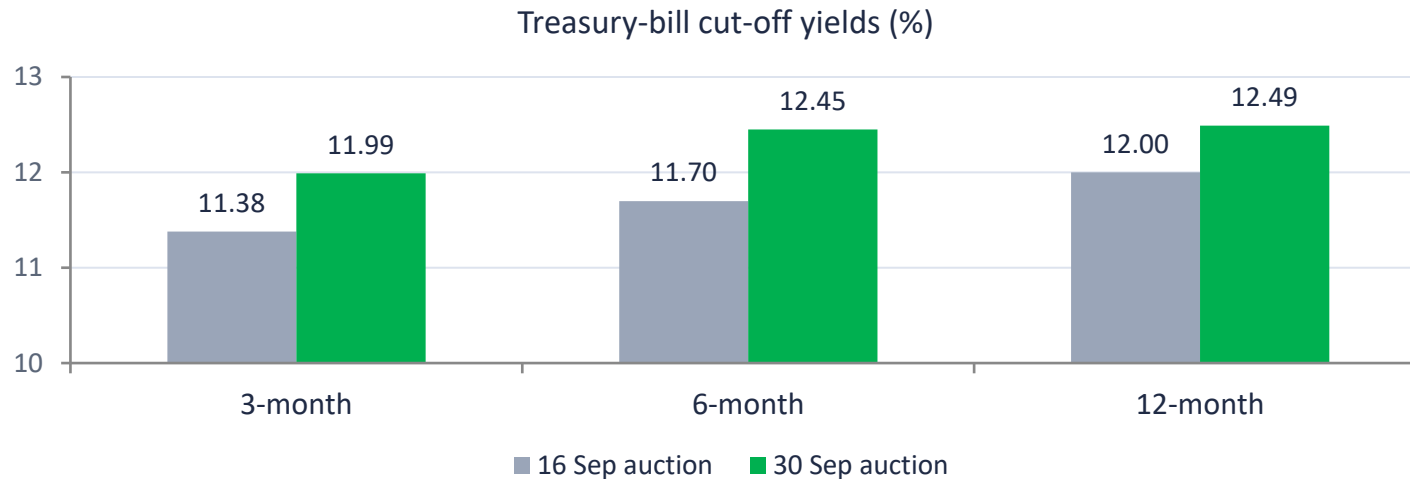
3-month, 30 Sep auction
(11.38% in the 16 Sep auction)

12.45%

6-month, 30 Sep auction
(11.70% in the 16 Sep auction): +75 bps

12.49%

12-month, 30 Sep auction
(12.00% in the 16 Sep auction)



SBP policy rate

Maintained at 11.50% on 14 September 2026.

Treasury-bill auctions

Yields increased in the subsequent auction held on 30 September 2026.

Source: SBP monetary policy announcement, 14 Sep 2026; reported T-bill auction results, 16 and 30 Sep 2026 (cut-off yields). 12-month yield on 30 Sep is approximately 12.49%. Chart axis starts at 10%.

Policy rate vs market yields

The SBP policy rate and government securities yields do not always move together

Market yields also reflect:



Inflation expectations



Government borrowing
requirements



Liquidity conditions



Expectations about future
monetary policy

A practical example



Pakistan's government securities market shows how yields can change even when the central bank leaves its policy rate unchanged.

What this means for an income fund

Higher market yields cut two ways

Pressure on NAV



Existing fixed-rate securities may lose market value because newer securities offer more competitive yields. This may put downward pressure on the fund's NAV.

Opportunity



Higher yields can create opportunities to invest fresh money or reinvest proceeds from maturing securities at more attractive rates.

The actual impact depends on

Portfolio composition, duration, maturity profile, security valuation and investment strategy. The rise in six-month Treasury-bill yields should not automatically be applied to longer-term Pakistan Investment Bonds (PIBs), whose prices respond to changes in their own relevant market yields.

How rising yields can affect NAV

Hypothetical portfolio: Rs 100 million, modified duration of 3 years, yield up 0.75 points

$$\text{Estimated \% price change} = - \text{Modified Duration} \times \text{Change in Yield}$$

-2.25%

Price change $\approx -3 \times 0.75\%$
(0.75 points = 75 bps)

Rs 2.25 million

Approximate estimated decline in
portfolio value

Rs 97.75 million

Estimated value, down from Rs 100
million

Funds with longer duration generally experience greater price sensitivity.

Simplified estimate: excludes convexity, accrued income, expenses, portfolio changes and other market factors. Not an estimate of the actual loss experienced by any Pak-Qatar AMC fund.

Understanding duration

Duration measures sensitivity to changes in market yields

What duration tells you



Duration measures the sensitivity of a fixed-income security or portfolio to changes in market yields. Generally, a higher duration means greater price sensitivity.

If relevant market yields increase by one percentage point:

About –1%

Portfolio A: modified duration of 1 year

About –4%

Portfolio B: modified duration of 4 years

Simplified duration calculation. Actual results may differ due to convexity, coupon structures, portfolio composition and other factors.

Why funds respond differently

Duration is only one consideration

Same event, different outcomes

Two income funds may respond differently to the same market development.

A fund with a shorter-duration portfolio may generally be less sensitive to interest-rate movements.

A longer-duration fund may experience larger valuation changes.

Other factors also matter

- Credit quality
- Liquidity
- Reinvestment risk
- The fund's investment objectives

The other side of rising yields

Higher yields are not necessarily negative for every investor or fund over all horizons

Opportunity for future income



Between the two September auctions, the six-month Treasury-bill cut-off yield rose from 11.70% to 12.45%.

A fund investing fresh money or reinvesting maturing proceeds may access higher yields, subject to available securities and its mandate.

Auction yield is not a fund return



A Treasury-bill auction yield is not the return an investor is guaranteed to earn from a mutual fund.

Returns depend on securities actually held, purchase prices, subsequent market movements, expenses, reinvestment rates and other factors.

Distinguish short-term market valuation from the potential to generate income over a longer period.

When market yields fall

The opposite scenario can also occur

What can cause yields to fall



Easing inflation expectations, or market participants anticipating lower future policy rates.

Effect on existing bonds



They may appreciate, potentially supporting the NAV of funds holding them. Longer duration generally has greater potential to benefit, though the outcome is not guaranteed.

The trade-off



As securities mature or proceeds are reinvested, a fund may have to invest at lower prevailing yields, reducing future income potential. Falling yields may support short-term valuations while creating challenges for future reinvestment income.

Rising vs falling yields

Both directions bring a benefit and a challenge

	Rising yields	Falling yields
Existing fixed-rate bond prices	Tend to fall	Tend to rise
Effect on NAV	May create short-term valuation pressure	May support NAV of funds holding those securities
Reinvestment	Fresh money and maturing proceeds may earn higher yields	May have to invest at lower prevailing yields
Longer-duration funds	Greater price sensitivity	Greater potential to benefit, not guaranteed

Choosing an income fund

Six things to consider before selecting an income fund

Investment horizon



Match the expected holding period with the fund's strategy and the timing of your financial needs.

Duration and rate sensitivity



Understand how sensitive the fund's portfolio may be to changes in market yields.

Portfolio quality



Review the credit quality, issuer concentration and types of instruments held by the fund.

Liquidity requirements



Consider when you may need access to your money and review the applicable redemption terms.

Objectives and risk tolerance



Select a fund category that aligns with your goals and capacity to withstand fluctuations in returns.

Fund documents



Review the latest fund manager report, offering documents, asset allocation and other disclosures, not only historical returns.

The bottom line

Changes in bond yields influence income fund performance

Rising yields



May create short-term valuation pressure while improving reinvestment opportunities.

Falling yields



May support existing bond prices while reducing the yields available on future investments.

Pakistan, Sept 2026



The Treasury-bill auctions show why to monitor market yields alongside the SBP policy rate. The impact depends on the securities a fund holds and its strategy.

For investors



Understand how yields, prices and duration relate, and choose investments that suit your objectives and horizon, rather than judging a fund solely by its latest performance.

Investor education note

Important



This presentation is for general informational purposes only and should not be construed as investment advice or a recommendation to buy or sell any security.

Mutual fund investments are subject to market risks. Returns are not guaranteed.

Investors should read the relevant offering documents before investing.