



**Bachat** ka Doosra Naam

**Annual Report  
2013**



**Paanchon Unglian Ghee Main**

**MCB**  
**DYNAMIC ALLOCATION**  
**FUND**

**MCB-Arif Habib Savings and Investments Limited**  
*(formerly: Arif Habib Investments Ltd.)*

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## **Vision**

To become synonymous with Savings.

## **Mission**

To become a preferred Savings and Investment Manager in the domestic and regional markets, while maximizing stakeholder's value.

## **Core Values**

The Company takes pride in its orientation towards client service. It believes that its key success factors include continuous investment in staff, systems and capacity building, and its insistence on universal best practices at all times.

## FUND'S INFORMATION

<b>Management Company</b>	<b>MCB-Arif Habib Savings and Investments Limited</b> (Formerly: Arif Habib Investments Limited) 8th Floor, Techno City, Corporate Tower, Hasrat Mohani Road, Karachi	
<b>Board of Directors of the Management Company</b>	Mian Mohammad Mansha Mr. Nasim Beg Mr. Yasir Qadri Syed Salman Ali Shah Mr. Haroun Rashid Mr. Ahmed Jahangir Mr. Samad A. Habib Mr. Mirza Mahmood Ahmad	Chairman(subject to the approval of SECP) Executive Vice Chairman Chief Executive Officer (subject to the approval of SECP) Director (subject to the approval of SECP) Director (subject to the approval of SECP) Director (subject to the approval of SECP) Director Director (subject to the approval of SECP)
<b>Audit Committee</b>	Mr. Haroun Rashid Mr. Nasim Beg Mr. Samad A. Habib	Chairman Member Member
<b>Human Resource Committee</b>	Syed Salman Ali Shah Mr. Nasim Beg Mr. Haroun Rashid Mr. Ahmed Jahangir Mr. Yasir Qadri	Chairman Member Member Member Member
<b>Company Secretary &amp; Chief Operating Officer</b>	Mr. Muhammad Saqib Saleem	
<b>Chief Financial Officer</b>	Mr. Umair Ahmed	
<b>Trustee</b>	Central Despository Company of Pakistan Limited CDC House, 990B Block 'B', S.M.C.H.S, Main Shahrah-e-Faisal, Karachi-74400	
<b>Bankers</b>	MCB Bank Limited Bank Al Falah Limited Faysal Bank Limited NIB Bank Limited	
<b>Auditors</b>	KPMG Taseer Hadi & Co. Chartered Accountants 1st Floor, Sheikh Sultan Trust Building No. 2 Beaumont Road, Karachi - 75530	
<b>Legal Advisor</b>	Bawaney & Partners 404, 4th Floor, Beaumont Plaza, Beaumont Road, Civil Lines, Karachi-75530	
<b>Transfer Agent</b>	<b>MCB-Arif Habib Savings and Investments Limited</b> (Formerly: Arif Habib Investments Limited) 8th Floor, Techno City, Corporate Tower, Hasrat Mohani Road, Karachi	
<b>Rating</b>	AM2 - Management Quality Rating assigned by PACRA	

## **REPORT OF THE DIRECTOR OF THE MANAGEMENT COMPANY FOR THE YEAR ENDED JUNE 30, 2013**

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The Board of Directors of MCB-Arif Habib Savings and Investments Limited (Formerly Arif Habib Investments Limited), the Management Company of MCB Dynamic Allocation Fund (DAF), is pleased to present the Annual Report on the affairs of DAF for the year ending June 30, 2013.

### **Economy & Money Market Overview and Outlook**

Though economic optimism generally prevailed throughout the year, the actual economic news released remained a mixed bag. Despite pressure on fiscal side and reserve position, some of the key macroeconomic indicators have depicted positive trend during the period.

In essence, easing inflation, along with smooth political transition in the later part of the year, managed to dilute the impact of higher fiscal deficit, reserve depletion and rupee depreciation on the economy. Hammered by poor law and order situation and energy crisis, the real GDP growth clocked in around 3.6 % in FY13, less than the targeted 4.3 % and far below the growth recorded by other developing countries in the region.

Thanks to the lower global commodity prices and the base effect by virtue of which inflation eased down to around 7.4 percent in FY13, nearly 3.6 percentage points lower than the previous fiscal year. With economy in the throes of weak GDP growth, lower inflationary pressures and excessive liquidity created to do unwarranted government borrowing from Central Bank developed a case for monetary easing. Consequently, policy makers reduced discount rate by a total of 3 percentage points during the year to 9 % at the end of the fiscal year.

The external account remained manageable, aided by a narrower trade and services gap. The current account deficit amounted to \$2.29 billion in FY13 compared to \$4.7 billion in the last year.

Against the backdrop of lower import bill, trade deficit narrowed down to around \$15 billion in FY13 from \$15.7 billion in the last year. The country's import bill nudged down by 1.6% to \$39.8 billion while exports stayed constant at the last year's level of around \$24.7 billion. At the same time, inflows of around \$1.8 billion under Coalition Support Fund helped reduce services deficit to \$1.13 billion from \$3.2 billion. At the same time, remittances totaled to \$13.9 billion from \$ 13.2 billion reported in FY12.

Juxtaposed the country's financial account registered a deficit of \$80 million, as opposed to surplus of \$1.28 billion in the previous year. In the face of higher FDIs, the financial account swung into the negative territory. FDI proceeds amounted to \$ 1.4 billion in FY13, nearly \$626 million higher than the previous year.

The lower current account deficit along with meager deficit in financial account and surplus of \$238 million in capital account summed to overall deficit of \$2.4 billion in FY13 as opposed to \$3.3 billion.

Although, the overall balance of payment deficit improved, foreign reserves depleted by around \$4.2 billion during the year to around \$11 billion at the end of the year largely on the account of timely loan repayments to IMF. Consequently, rupee depleted by 5 % to 98.4 against dollar towards the end of the year.

In the absence of structural reforms, the country's performance on fiscal side remained abysmal. Fiscal indiscipline continued to remain a cause of concern leading to the gaping 8.8% budgetary deficit as percentage of GDP. During the first three quarters the country's fiscal deficit stood at 4.4 % of GDP. Part of the deficit can also be attributed to the current governments first move to settle circular debt largely through borrowing from Central Bank.

The previous government's attempts at reform were a day late and a dollar short. The tax revenue collection target of Rs 2.5 trillion remained elusive as the government is expected to collect at total of Rs1.9 trillion in FY13. The collection through non-tax sources was also off the mark as the government failed to roll out 3G licenses in FY13.

## **REPORT OF THE DIRECTOR OF THE MANAGEMENT COMPANY FOR THE YEAR ENDED JUNE 30, 2013**

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With the country nursing with wider revenue expenditure shortfall, thin external flows tilted the borrowing pressure towards domestic sources. The net financing to the government increased by Rs 460 billion during FY13 to Rs 1.6 trillion at the year end. The scheduled banks continued to bear a large part of the burden since the borrowing from the banking sector alone increased by Rs 389 billion to Rs 1.025 trillion at the year end.

Banking on Net domestic assets (NDA), money supply (M2) posted a double digit growth of 17.08% during the year. This can be gauged from the fact that NDA increased by Rs 1.5 trillion (data as of 28th June, 2013) during FY13 as opposed to Rs 1.2 trillion in FY12. While, Net foreign assets(NFA) fell by Rs 184 billion as opposed to decline of Rs 248 billion during the previous year.

To a large extent, trade deficit outlook hinges on global commodity prices. Increase in GST and imposition of additional tax measures as announced in FY14 budget will set the stage for higher inflation level going forward. However, nod from IMF on loan restructuring at the onset of FY14 will reduce pressure on reserves position.

### **Equities Market Overview and Outlook**

The local stock market recorded substantial growth reflected by the KSE-100 index, which rose by a remarkable 52% in FY13 as against an average annual growth of 25% during the past three fiscal years. This helped the local equity market shine as one of the best performing markets in the world.

Buoyed by stable macroeconomic environment and strengthening fundamentals, the stock market started the year on a strong note. The market touched an all-time high of around 22,757 on 13th June, 2013.

The volume remained healthy with an average daily market turnover of around 200 million shares during the year. At this level, the index volume was nearly 1.5 times and 2 times higher than the average index volume in FY12 and FY11, respectively. Foreign investors also remained at the forefront given that the market closed its fiscal year recording net foreign inflows of around \$568.9 million as opposed to the net outflow of \$189 million in FY12.

A combination of lower commodity prices, monetary easing, CSF inflows, foreign portfolio inflows, rupee depreciation, smooth political transition, buyout of Unilever Pakistan Limited, along with expectation regarding resolution of circular debt, IMF loan extension and improved relationship with key strategic allies after the formation of new government, helped the stock market climb strongly during the year. In addition, monetary easing in developed countries also played a catalyst as they continued to facilitate the flow of funds towards the developing countries. However, the good part is that a slew of positive developments managed to play-down the negative sentiments arising from poor law and order situation and energy crisis in the country.

The saving grace came in the shape of stable commodity prices, which reduced the pressure on fiscal and external account front. In light of tepid inflationary pressures, with average inflation stood around 7.4% in FY13, policy makers reduced the discount rate to 9% towards the end of the fiscal year, marking a total cut of 3 percentage points during the year.

Although, the overall balance of payment deficit narrowed to \$ 2.4 billion in FY13 from around \$3.3 billion in FY12, foreign reserves depleted by around \$4.2 billion during the year to \$11 billion at the end of the year- mainly on the account of timely loan repayments to IMF.

Benefiting from inventory gains, and China's sustained appetite for course count textile products, scrips of the sector managed to lead the pack, while higher cement prices in the local market amid lower coal prices helped cement companies to stay on a roll. The decline in discount rate brought debt-laden companies into the limelight, while rupee depreciation widened the margins of exporters such as the textile sector and companies with dollar/oil based tariffs.

On the contrary, fertilizer and banking sector remained trailed, as a reaction to lowering in discount rate. Gas curtailment issues kept investor at bay from fertilizer sector.

## REPORT OF THE DIRECTOR OF THE MANAGEMENT COMPANY FOR THE YEAR ENDED JUNE 30, 2013

A string of positive developments arising since the formation of new government suggests positive outlook for equity markets. The government's apparent commitment towards the resolution of circular debt, recovery of \$800 million from Etisalat, privatization of state owned entities, together with higher PSDP allocation for FY14 will continue to keep investors' confidence intact. Higher PSDP allocation is likely to support stocks of companies in construction materials sector, while expected rupee depreciation may continue to support textile exports, chemical and energy sector.

The country's likely comeback in fresh IMF program will pave the way for structural, monetary and fiscal reforms. As outlook on further monetary easing changes, the lagging banking sector may start to catch up..

With the global commodity prices unlikely to rise the trade balance looks stable. Also, in consideration of various tax measures imposed in FY14, targeted fiscal deficit level of 6.3% doesn't appear as farfetched as it has in the last few years.

### **Fund's Performance**

The investment objective of the fund is to aim at providing a high absolute return by investing in equity and debt markets. Period under review is marked with numerous major events on international, political and macroeconomic fronts that not only affected market movements but also kept changing fundamentals of many sectors and companies. Fund kept a vigilant eye on such developments and kept adjusting sector, company and overall equity exposure of the fund accordingly. During the year fund not only kept strong positions in defensive sectors like Oil & Gas and Electricity but also took aggressive positions in Construction & Materials remained highest earning growth sector of the year while fund took a cautious stance towards fertilizer companies because of high degree of earnings uncertainty. The fund remained committed towards its philosophy of top-down investment approach, where macroeconomic factors play a critical role in setting the overall strategy of the fund.

On the fixed income side, the fund continued managing its Treasury Bills exposure according to market conditions and interest rate outlook. From time to time, the fund capitalized on attractive TDRs opportunities while also maintained a significant exposure towards high quality TFCs, T-Bills & PIBs. The fund generated a return of 19.2% during the year, while since inception return of the fund stands at 22.5%.

The Fund yields for the period under review remained as follows:

<b>Performance Information (%)</b>	<b>DAF</b>	<b>Benchmark</b>
Last twelve Months Return	19.2%	N/A
Since Inception	22.5%	N/A

During the year your fund earned net income of Rs 69.78 million. The Board in the meeting held on July 4, 2013 has declared final distribution amounting to Rs. 66.30 million (i.e. Rs. 12.9135 per unit).

During the period, units worth Rs. 416.082 million (including no bonus units) were issued and units with a value of Rs. 124.088 million were redeemed. As on 30 June 2013 the NAV of the Fund was Rs. 84.2804 per unit.

### **Update on Workers' Welfare Fund**

Through the Finance Act, 2008 an amendment was made in section 2(f) of the Workers' Welfare Fund Ordinance, 1971 (the WWF Ordinance) whereby the definition of 'Industrial Establishment' has been made applicable to any establishment to which West Pakistan Shops and Establishment Ordinance, 1969 applies. As a result of this amendment it appears that WWF Ordinance has become applicable to all Collective Investment Schemes (CISs) whose income exceeds Rs. 0.5 million in a tax year. In light of this, the Mutual Funds Association of Pakistan (MUFAP) filed a constitutional petition in the Honorable Sindh High Court challenging the applicability of WWF on CISs which was dismissed mainly on the ground that MUFAP is not an aggrieved party.

## **REPORT OF THE DIRECTOR OF THE MANAGEMENT COMPANY FOR THE YEAR ENDED JUNE 30, 2013**

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Subsequently, clarifications were issued by the Ministry of Labour and Manpower (the Ministry) which stated that mutual funds are not liable to contribute to WWF on the basis of their income. These clarifications were forwarded by the Federal Board of Revenue (FBR) (being the collecting agency of WWF on behalf of the Ministry) to its members for necessary action. Based on these clarifications, the FBR also withdrew notice of demand which it had earlier issued to one of the mutual funds for collection of WWF. Other mutual funds to whom notices were issued by the FBR also took up the matter with FBR for their withdrawal.

Further, a fresh Constitutional Petition filed with the Honorable High Court of Sindh by a CIS / mutual fund and a pension fund through their trustee and an asset management company inter alia praying to declare that mutual funds / voluntary pension funds being pass through vehicles / entities are not industrial establishments and hence, are not liable to contribute to the WWF under the WWF Ordinance. The proceedings of the Honorable Court in this matter have concluded and the Honorable Court has reserved its decision.

Subsequent to the year ended June 30, 2011, the Honorable Lahore High Court (LHC) in a Constitutional Petition relating to the amendments brought in the WWF Ordinance, 1971 through the Finance Act, 2006, and the Finance Act, 2008, has declared the said amendments as unlawful and unconstitutional. The Management Company is hopeful that the decision of the LHC, will lend further support to the Constitutional Petition which is pending in the SHC. In March 2013 a larger bench of the Sindh High Court (SHC) in various constitutional petitions declared that amendments brought in the WWF Ordinance, 1971 through the Finance Act, 2006, and the Finance Act 2008, do not suffer from any constitutional or legal infirmity.

However, as per our legal counsel the stay granted to Collective Investment Schemes (CIS) remains intact and the constitution petitions filed by the CIS to challenge the Workers Welfare Fund contribution have not been affected SHC judgment.

In view of the afore mentioned developments and uncertainties created by the recent decision by Honourable Sindh High Court, the Management Company as a matter of abundant precaution has charged provision for WWF in these financial statements.

### **Corporate Governance**

The Fund is committed to high standards of corporate governance and the Board of Directors of the Management Company is accountable to the unit holders for good corporate governance. Management is continuing to comply with the provisions of best practices set out in the code of corporate governance particularly with regard to independence of non-executive directors. The Fund remains committed to conduct business in line with listing regulations of Lahore Stock Exchange.

The following specific statements are being given to comply with the requirements of the Code of Corporate Governance:

- a. Financial statements present fairly the statement of affairs, the results of operations, cash flows and Change in unit holders' fund.
- b. Proper books of accounts of the Fund have been maintained during the year.
- c. Appropriate accounting policies have been consistently applied in preparation of financial statements.

Accounting estimates are based on reasonable prudent judgment.

- d. Relevant International Accounting Standards, as applicable in Pakistan, provisions of the Non Banking Finance Companies (Establishment & Regulations) Rules, 2003, Non Banking Finance Companies and Notified Entities Regulations, 2008, requirements of the respective Trust Deeds and directives issued by the Securities & Exchange Commission of Pakistan have been followed in the preparation of financial statements.
- e. The system of internal control is sound in design and has been effectively implemented and monitored.



**REPORT OF THE DIRECTOR OF THE MANAGEMENT COMPANY  
FOR THE YEAR ENDED JUNE 30, 2013**

- f. There are no significant doubts upon the Fund's ability to continue as going concern.
- g. There has been no material departure from the best practices of Corporate Governance, as detailed in the listing regulations.
- h. Key financial data as required by the Code of Corporate Governance has been summarized in the financial statements.
- i. Outstanding statutory payments on account of taxes, duties, levies and charges, if any have been fully disclosed in the financial statements.
- j. The statement as to the value of investments of provident fund is not applicable on the Fund but applies to the Management Company; hence no disclosure has been made in the Directors' Report of the Management Company.
- k. The detailed pattern of unit holding, as required by NBFC Regulations and the Code of Corporate Governance are enclosed.
- l. The details of attendance of Board of Directors meeting is disclosed in note 20.3 to the attached financial statements. Below is the details of committee meetings held during the year ended June 30, 2013:

1. Meeting of Human resource and remuneration committee (held on August 13, 2012 and April 04, 2013)

S. No.	Name	Designation	Total Meetings Held	No. of Meetings Attended	Leave granted
1.	Dr. Syed Salman Shah	Chairman	2	2	-
2.	Mr. Haroun Rashid	Member	2	1	1
3.	Mr. Nasim Beg	Member	2	2	-
4.	Mr. Ahmed Jahangir	Member	2	2	-
5.	Mr. Yasir Qadri	Member	2	2	-

2. Meeting of Audit Committee (held on August 13, 2012, October 24, 2012, February 1, 2013 and April 23, 2013)

S. No.	Name	Designation	Total Meetings Held	No. of Meetings Attended	Leave granted
1.	Mr. Haroun Rashid	Chairman	4	3	1
2.	Mr. Nasim Beg	Member – Executive Vice Chairman	4	4	-
3.	Mr. Samad A. Habib	Member	4	4	-
4.	Mr. Ali Munir*	Member	2	-	2

\* Mr. Ali Munir ceased to be the member of Audit Committee w.e.f. October 25, 2012.

- m. As required by the Code, all the directors of the Management Company will attend the training Program for directors by the year 2016. Currently, two of the directors are exempt from obtaining mandatory training having the requisite qualification and experience. Further Directors' have also being briefed about the recent changes made in laws and regulations to enable them to effectively manage the affairs of the management company.

**REPORT OF THE DIRECTOR OF THE MANAGEMENT COMPANY  
FOR THE YEAR ENDED JUNE 30, 2013**

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- n. No trades in the Units of the Fund were carried out during the year by Directors, Chief Executive Officer, Chief Operating Officer and Company Secretary, Chief Financial Officer and Chief Internal Auditor of the Management Company and their spouses and minor children.

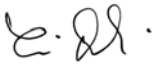
**External Auditors**

The fund's external auditors, KPMG Taseer Hadi & Co., Chartered Accountants, have expressed their willingness to continue as the fund auditors for the ensuing year ending June 30, 2014. The audit committee of the Board has recommended reappointment of KPMG Taseer Hadi & Co., Chartered Accountant as auditors of the fund for the year ending June 30, 2014.

**Acknowledgement**

The Board of Directors of the Management Company is thankful to the valued investors of the Fund for their reliance and trust in MCB-Arif Habib Savings and Investments Limited (Formerly Arif Habib Investments Limited). The Board also likes to thank the Securities and Exchange Commission of Pakistan, State Bank of Pakistan, Central Depository Company of Pakistan Limited (the Trustee of the Fund) and the management of the Lahore Stock Exchange for their continued cooperation, guidance, substantiation and support. The Board also acknowledges the efforts put in by the team of the Management Company for the growth and meticulous management of the Fund.

For and on behalf of the board



**Yasir Qadri**

Chief Executive

Karachi: August 05, 2013

# REPORT OF THE FUND MANAGER FOR THE YEAR ENDED JUNE 30, 2013

## Fund Type and Category

MCB Dynamic Allocation Fund MCB DAF is an Open-End Asset Allocation Scheme for which SECP categorization in process.

## Fund Benchmark

MCB DAF is an absolute return fund and has no benchmark. However, a benchmark has been suggested to the SECP for its approval.

## Investment Objective

MCB Dynamic Allocation Fund is an asset allocation fund and its objective is to aim at providing a high absolute return by investing in equity and debt markets.

## Investment Strategy

The fund will aim to achieve the above-mentioned objective by investing up to 100% in equity securities or up to 100% in debt securities according to the market conditions.

## Manager's Review

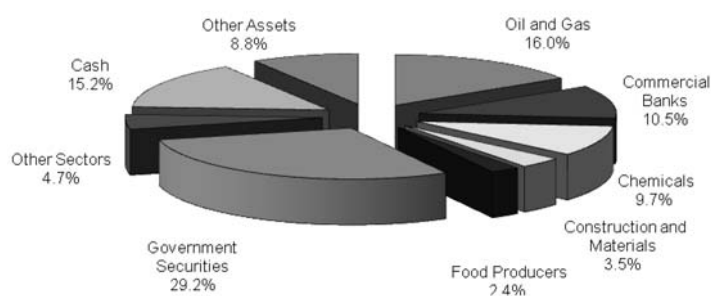
The fund posted a total return of 19.2% during the year under review, while since inception return of the fund stood at 22.5%. The fund continued to follow a risk-averse strategy and hence preferred to take defensive equity market exposures.

The fund opened the year with an equities exposure of 22% which was increased to around 45% during the first quarter. As the market continued to progress, the fund kept on realizing capital gains and reduced its equity exposure, hence ended the year with an equity exposure of around 15%. Average exposure towards equities during the year under review stood at around 17%. The focus was maintained on defensive high dividend yielding stocks with attractive valuations.

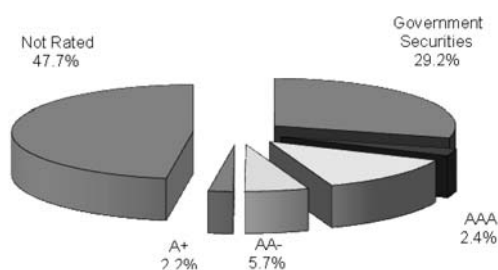
On the fixed income front, the exposure towards government securities was also managed according to the market conditions and their relative risk-return profile. The fund kept its exposure in TFCs mainly in banking sector to around 8% at year end.

Net Assets of the fund increased to PKR 433 million as on June 30, 2013 from PKR 100 million as on June 30, 2012, depicting a healthy increase of 3.3x.

Asset Allocation as on June 30, 2013 (% of total assets)



Asset Quality as on June 30, 2013 (% of total assets)



**Mr. Muhammad Asim, CFA**  
Fund Manager

Karachi: August 05, 2013

# TRUSTEE REPORT TO THE UNIT HOLDERS FOR THE YEAR ENDED JUNE 30, 2013



## CENTRAL DEPOSITORY COMPANY OF PAKISTAN LIMITED

### Head Office

CDC House, 99-B, Block 'B'  
S.M.C.H.S. Main Shakra-e-Faisal  
Karachi - 74400. Pakistan.  
Tel: (92-21) 111-111-500  
Fax: (92-21) 34326020 - 23  
URL: www.cdcPakistan.com  
Email: info@cdcpak.com



## TRUSTEE REPORT TO THE UNIT HOLDERS

### MCB DYNAMIC ALLOCATION FUND

#### Report of the Trustee pursuant to Regulation 41(h) and Clause 9 of Schedule V of the Non-Banking Finance Companies and Notified Entities Regulations, 2008

We Central Depository Company of Pakistan Limited, being the Trustee of MCB Dynamic Allocation Fund (the Fund) are of the opinion that MCB – Arif Habib Savings and Investments Limited (formerly Arif Habib Investments Limited) being the Management Company of the Fund has in all material respects managed the Fund during the year ended June 30, 2013 in accordance with the provisions of the following:

- (i) Limitations imposed on the investment powers of the Management Company under the constitutive documents of the Fund;
- (ii) The pricing, issuance and redemption of units are carried out in accordance with the requirements of the constitutive documents of the Fund; and
- (iii) The Non-Banking Finance Companies (Establishment and Regulations) Rules, 2003, the Non-Banking Finance Companies and Notified Entities Regulations, 2008 and the constitutive documents of the Fund.

**Muhammad Hanif Jakhura**  
Chief Executive Officer  
Central Depository Company of Pakistan Limited

Karachi: October 10, 2013



## STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE FOR THE YEAR ENDED JUNE 30, 2013

This statement is being presented by the Board of Directors of MCB-Arif Habib Savings and Investments Limited (formerly Arif Habib Investments Limited), the Management Company of MCB Dynamic Allocation Fund ("the Fund") to comply with the Code of Corporate Governance contained in Regulation No. 35 of Listing Regulations of Lahore Stock Exchange for the purpose of establishing a framework of good governance, whereby a listed company is managed in compliance with the best practices of corporate governance.

MCB Dynamic Allocation Fund is an open end mutual fund and is listed at Lahore Stock Exchange. The Fund, being a unit trust scheme, does not have its own Board of Directors. The Management Company, MCB-Arif Habib Savings and Investments Limited (formerly Arif Habib Investments Limited), on behalf of the Fund, has applied the principles contained in the Code in the following manner:

1. The Management Company encourages representation of independent non-executive directors on its Board of Directors. At present the Board includes

Category	Names
Independent Directors	<ol style="list-style-type: none"> <li>1. Dr. Salman Shah</li> <li>2. Mr. Haroun Rashid</li> <li>3. Mr. Mirza Mehmood</li> </ol>
Executive Directors	<ol style="list-style-type: none"> <li>1. Mr. Nasim Beg – Executive Vice Chairman</li> <li>2. Mr. Yasir Qadri – Chief Executive Officer</li> </ol>
Non – Executive Directors	<ol style="list-style-type: none"> <li>1. Mian Mohammad Mansha</li> <li>2. Mr. Ahmed Jehangir</li> <li>3. Mr. Samad Habib</li> </ol>

The independent directors meets the criteria of independence under clause i (b) of the Code.

2. The directors have confirmed that none of them is serving as a director in more than ten listed companies, including the Management Company.
3. All the directors of the Management Company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFIs or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. During the period no casual vacancy occurred on the board of the Management Company
5. The Management Company had prepared a 'Code of Conduct' and ensured that appropriate steps had been taken to disseminate it throughout the company along with its supporting policies and procedures.
6. The Board has developed vision / mission statement, overall corporate strategy and significant policies of the Management Company. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.
7. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the Chief Executive Officer, other executive and non-executive directors, have been taken by the Board. No new appointment of Chief Executive Officer, other executive and non-executive directors were made during the year.
8. The meetings of the Board were presided over by the Chairman and, in his absence, by a director elected by the Board for this purpose and the Board met at least once in every quarter. Written notices of the Board meetings, along with agenda and working papers, were circulated at least seven days before the meetings,. The minutes of the meetings were appropriately recorded and circulated.
9. Currently, two of the directors are exempt from obtaining mandatory training having the requisite qualification and experience. During the period the two of the directors' have attended Directors' Training Program conducted by the Institute of Chartered Accountants of Pakistan.

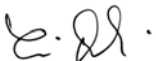
## STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE FOR THE YEAR ENDED JUNE 30, 2013

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10. The Board has approved the appointment of Chief Operating Officer and Company secretary, Chief Financial Officer and Head of Internal Audit including their remuneration and terms and conditions of employment.
11. The Directors' Report of the fund for the year ended June 30, 2013 has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.
12. The financial statements of the Fund were duly endorsed by Chief Executive Officer and Chief Financial Officer of the Management Company before approval of the Board.
13. The Directors, Chief Executive Officer and executives of the Management Company do not hold any interest in the units of the Fund other than that disclosed in the pattern of unit holding.
14. The Management Company has complied with all the corporate and financial reporting requirements of the Code.
15. The Board has formed an Audit Committee for the Management Company. It comprises of three members, of which two are non-executive directors and the chairman of the committee is an independent director.
16. The meetings of the audit committee were held at least once every quarter prior to approval of the interim and final results of the Fund and as required by the Code. The terms of reference of the committee have been approved by the Board and advised to the committee for compliance.
17. The Board has formed an HR and Remuneration Committee. It comprises five members, of whom two are non-executive directors and the chairman of the committee is an independent director.
18. The Board has set up an effective internal audit function. The Head of Internal Audit is considered suitably qualified and experienced for the purpose and is conversant with the policies and procedures of the fund and the Company.
19. The statutory auditors of the Fund have confirmed that they have been given a satisfactory rating under the quality control review program of the Institute of Chartered Accountants of Pakistan (ICAP), that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Company and units of the fund. The firm and all its partners are also in compliance with International Federation of Accountants guidelines on code of ethics as adopted by ICAP.
20. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed International Federation of Accountants guidelines in this regard.
21. The 'closed period', prior to the announcement of interim/final results, and business decisions, which may materially affect the market price of Management Company's securities and Fund's unit, was determined and intimated to directors, employees and stock exchange(s).
22. Material/price sensitive information has been disseminated among all market participants at once through stock exchange.
23. We confirm that all other material principles enshrined in the Code have been complied with.

For and on behalf of the board



**Yasir Qadri**

Chief Executive

Karachi: August 05, 2013

# REVIEW REPORT TO THE UNIT HOLDERS ON THE STATEMENT OF COMPLIANCE WITH THE BEST PRACTICES OF THE CODE OF CORPORATE GOVERNANCE



**KPMG Taseer Hadi & Co.**  
Chartered Accountants  
Sheikh Sultan Trust Building No. 2  
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Karachi, 75530 Pakistan

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## **Review report to the Unit holders of Dynamic Allocation Fund “the Fund” on Statement of Compliance with Best Practices of Code of Corporate Governance**

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance (“Statement of Compliance”) prepared by the Board of Directors of MCB-Arif Habib Savings and Investments Limited (formerly Arif Habib Investments Limited) (“the Management Company”) of the Fund to comply with the Listing Regulations of Lahore Stock Exchange Limited, where the Fund is listed.

The responsibility for compliance with the Code of Corporate Governance is that of the Board of Directors of the Management Company of the Fund. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement of Compliance reflects the status of the Fund’s compliance with the provisions of the Code of Corporate Governance and report if it does not. A review is limited primarily to inquiries of the Management Company’s personnel and review of various documents prepared by the Management Company to comply with the Code.

As part of our audit of financial statements we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We are not required to consider whether the Board’s statement on internal control covers all risks and controls, or to form an opinion on the effectiveness of such internal controls, the Management Company’s corporate governance procedures and risks.

Further, sub-regulation (x) of Listing Regulations 35 notified by the Lahore Stock Exchange Limited requires the Management Company to place before the Board of Directors for their consideration and approval of related party transactions distinguishing between transactions carried out on terms equivalent to those that prevailed in arm’s length transactions and transactions which are not executed at arm’s length price recording proper justification for using such alternate pricing mechanism. Further, all such transactions are also required to be separately placed before the audit committee. We are only required and have ensured compliance of requirement to the extent of approval of related party transactions by the Board of Directors. We have not carried out any procedures to determine whether the related party transactions were under taken at arm’s length price or not.

Based on our review, nothing has come to our attention, which causes us to believe that the Statement of Compliance does not appropriately reflect the Fund’s compliance, in all material respects, with the best practices contained in the Code of Corporate Governance for the year ended 30 June 2013.

**Date: 5 August 2013**

**Karachi**

  
**KPMG Taseer Hadi & Co.**  
**Chartered Accountants**

KPMG Taseer Hadi & Co., a Partnership firm registered in Pakistan and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative (“KPMG International”), a Swiss entity.

# INDEPENDENT AUDITORS' REPORTS TO THE UNIT HOLDERS FOR THE YEAR ENDED JUNE 30, 2013



**KPMG Taseer Hadi & Co.**  
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Karachi, 75530 Pakistan

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## Independent Auditors' Report to the Unit Holders

### *Report on the Financial Statements*

We have audited the accompanying financial statements of **MCB Dynamic Allocation Fund** ("the Fund"), which comprise of the statement of assets and liabilities as at 30 June 2013, and the related income statement, distribution statement, statement of movement in Unit Holders' Fund, cash flow statement for the year ended 30 June 2013, and a summary of significant accounting policies and other explanatory notes.

### *Management Company's responsibility for the financial statements*

The Management Company of the Fund is responsible for the preparation and fair presentation of these financial statements in accordance with the requirements of the approved accounting standards as applicable in Pakistan and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards as applicable in Pakistan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Fund's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the financial statements give a true and fair view of the financial position of the Fund as at 30 June 2013, and of its financial performance, its cash flows and transactions for the year then ended in accordance with approved accounting standards as applicable in Pakistan.

KPMG Taseer Hadi & Co., a Partnership firm registered in Pakistan and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.



**INDEPENDENT AUDITORS' REPORTS TO THE UNIT HOLDERS  
FOR THE YEAR ENDED JUNE 30, 2013**

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KPMG Taseer Hadi & Co.

*Other matters*

The financial statements of the Fund for the year ended 30 June 2012 were audited by another firm of auditors whose report dated 17 September 2012, expressed an unqualified opinion thereon.

***Report on Other Legal and Regulatory Requirements***

In our opinion, the financial statements have been prepared in accordance with the relevant provisions of the Non-Banking Finance Companies (Establishment and Regulation Rules, 2003) and Non-Banking Finance Companies and Notified Entities Regulations, 2008.

**Date: 5 August 2013**

**Karachi**

  
**KPMG Taseer Hadi & Co.**  
**Chartered Accountants**  
**Mazhar Saleem**

# **FINANCIAL STATEMENTS**

**STATEMENT OF ASSETS AND LIABILITIES  
AS AT JUNE 30, 2013**

	<i>Note</i>	<b>2013</b>	2012
		<b>(Rupees in '000)</b>	
<b>Assets</b>			
Balances with banks	4	68,364	22,560
Investments	5	340,218	74,402
Dividend and profit receivables	6	3,687	1,203
Receivable against sale of investments		10,128	173
Receivable from National Clearing Company of Pakistan Limited		12,764	961
Security deposits	7	4,284	4,100
Preliminary expenses	8	-	707
<b>Total assets</b>		<b>439,445</b>	104,106
<b>Liabilities</b>			
Payable to Management Company	9	1,152	146
Payable to Central Depository of Pakistan Limited - Trustee	10	59	59
Payable to Securities and Exchange Commission of Pakistan	11	233	250
Fair value of derivative liability		243	-
Accrued and other liabilities	12	5,078	3,247
<b>Total liabilities</b>		<b>6,765</b>	3,702
<b>Net assets</b>		<b>432,680</b>	100,404
<b>Unit holders' fund</b>		<b>432,680</b>	100,404
<b>Contingencies and commitments</b>	13		
		<b>(Number of units)</b>	
<b>Number of units in issue (face value of units is Rs. 100 each)</b>		<b>5,133,825</b>	1,420,402
		<b>(Rupees)</b>	
<b>Net asset value per unit</b>	3.6	<b>84.28</b>	70.69

The annexed notes from 1 to 22 form an integral part of these financial statements.

  
\_\_\_\_\_  
Chief Executive Officer

MCB-Arif Habib Savings and Investments Limited  
(formerly: Arif Habib Investments Limited)  
(Management Company)

  
\_\_\_\_\_  
Director

## INCOME STATEMENT FOR THE YEAR ENDED JUNE 30, 2013

	<i>Note</i>	<b>2013</b>	2012
<b>(Rupees in '000)</b>			
<b>Income</b>			
Capital gain on sale of investments - net		31,608	1,489
Loss from spread transactions		(5,531)	(2,049)
Dividend income		7,775	14,307
Profit on bank deposits		3,689	4,337
Income from government securities		10,321	4,413
Income from term finance certificates		3,876	6,225
Other income		48	13
		<u>51,786</u>	<u>28,735</u>
Net unrealised diminution in the fair value of future contracts		(243)	-
Net unrealised appreciation in fair value of investments classified as 'at fair value through profit or loss'	5.1, 5.2, 5.5	<u>(16)</u>	641
<b>Total income</b>		<u>51,527</u>	<u>29,376</u>
<b>Expenses</b>			
Remuneration of the management company	9.1	4,318	4,582
Remuneration of Central Depository Company of Pakistan Limited - Trustee	10.1	700	700
Annual fee to Securities and Exchange Commission of Pakistan	11	233	250
Provision for workers' welfare fund	12.1	1,590	-
Brokerage and settlement charges		2,663	3,192
Amortisation of preliminary expenses	8	707	1,003
Auditor's remuneration	14	637	658
Other expenses		397	463
<b>Total operating expenses</b>		<u>11,245</u>	<u>10,848</u>
<b>Net operating income for the year</b>		<u>40,282</u>	<u>18,528</u>
Net element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed		29,502	(10,406)
<b>Net income for the year before taxation</b>		<u>69,784</u>	<u>8,122</u>
Taxation	15	-	-
<b>Net income for the year after taxation</b>		<u>69,784</u>	<u>8,122</u>
<b>OTHER COMPREHENSIVE INCOME</b>			
Other comprehensive income for the year		-	-
<b>Total comprehensive income for the year</b>		<u>69,784</u>	<u>8,122</u>
<b>Earnings per unit</b>	16		

The annexed notes from 1 to 22 form an integral part of these financial statements.

  
\_\_\_\_\_  
Chief Executive Officer

MCB-Arif Habib Savings and Investments Limited  
(formerly: Arif Habib Investments Limited)  
(Management Company)

  
\_\_\_\_\_  
Director

**DISTRIBUTION STATEMENT  
FOR THE YEAR ENDED JUNE 30, 2013**

	2013	2012
	(Rupees in '000)	
<b>Accumulated loss brought forward:</b>		
- Realised (loss)	(42,278)	(147,507)
- Unrealised income	641	3,853
	(41,637)	(143,654)
Net income for the year	69,784	8,122
Element of (loss) / income and capital (losses) / gains included in prices of units issued less those in units redeemed - amount representing unrealised (diminution) / appreciation	(108,851)	100,807
Final distribution for the year ended 30 June 2012 at Rs. 5.21 per unit		
- Cash distribution	-	(107)
- Bonus distribution	-	(6,805)
	-	(6,912)
<b>Accumulated loss carried forward</b>	<b>(80,704)</b>	<b>(41,637)</b>
<b>Accumulated loss comprising:</b>		
- Realised (loss)	(86,264)	(42,278)
- Unrealised income	5,560	641
	<b>(80,704)</b>	<b>(41,637)</b>

The annexed notes from 1 to 22 form an integral part of these financial statements.

  
\_\_\_\_\_  
Chief Executive Officer

MCB-Arif Habib Savings and Investments Limited  
(formerly: Arif Habib Investments Limited)  
(Management Company)

  
\_\_\_\_\_  
Director

**STATEMENT OF MOVEMENT IN UNIT HOLDERS' FUND  
FOR THE YEAR ENDED JUNE 30, 2013**

	2013	2012
	(Rupees in '000)	
<b>Net assets at the beginning of the year</b>	<b>100,404</b>	332,580
Issue of 5,288,387 units (2012: 40,940 units)	<b>416,082</b>	2,867
Issue of nil bonus units relating to the year ended 30 June 2013 (2012: 95,860 units)	-	6,805
Redemption of 1,574,964 units (2012: 3,478,735 units)	<b>(124,088)</b>	(253,464)
	<b>291,994</b>	(243,792)
Element of (income) / loss and capital (gains) / losses included in prices of units issued less those in units redeemed		
- amount representing (income) / loss and capital (gains) / losses - transferred to income statement	<b>(29,502)</b>	10,406
- amount representing loss / (income) and capital losses / (gains) that forms part of unit holder's fund - transferred to distribution statement	<b>108,851</b>	(100,807)
	<b>79,349</b>	(90,401)
Net element of (loss) / income and capital (losses) / gains included in prices of units issued less those in units redeemed - transferred to distribution statement	<b>(108,851)</b>	100,807
Net income for the year [excluding net unrealised (diminution) / appreciation in fair value of investments classified as 'at fair value through profit or loss', future contracts and capital gain on sale of investments - net]	<b>38,435</b>	5,992
Capital gain on sale of investments - net	<b>31,608</b>	1,489
Net unrealised (diminution) / appreciation in fair value of investments classified as 'at fair value through profit or loss' and future contracts	<b>(259)</b>	641
Total comprehensive income for the year	<b>69,784</b>	8,122
<b>Distribution to the unit holders of the Fund:</b>		
Final distribution for the year ended 30 June 2012 at Rs. 5.21 per unit		
- Cash distribution	-	(107)
- Bonus distribution	-	(6,805)
	-	(6,912)
<b>Net assets at end of the year</b>	<b>432,680</b>	100,404
	<b>(Rupees)</b>	
Net asset value per unit at the beginning of the year	<b>70.69</b>	69.84
Net asset value per unit at the end of the year	<b>84.28</b>	70.69

The annexed notes from 1 to 22 form an integral part of these financial statements.

  
\_\_\_\_\_  
Chief Executive Officer


MCB-Arif Habib Savings and Investments Limited  
(formerly: Arif Habib Investments Limited)  
(Management Company)

  
\_\_\_\_\_  
Director

## CASH FLOW STATEMENT FOR THE YEAR ENDED JUNE 30, 2013

	2013	2012
	(Rupees in '000)	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income for the year before taxation	69,784	8,122
<b>Adjustments for non-cash and other items:</b>		
Dividend income	(7,775)	(14,307)
Net unrealised diminution / (appreciation) in fair value of investments classified as 'financial assets at fair value through profit or loss'	259	(641)
Amortisation of preliminary expenses	707	1,003
Element of (income) / loss and capital (gains) / losses included in prices of units issued less those in units redeemed	(29,502)	10,406
	<b>(36,311)</b>	<b>(3,539)</b>
	<b>33,473</b>	<b>4,583</b>
<b>(Increase) / decrease in assets</b>		
Investments	(276,030)	149,478
Profit and other receivable	(2,414)	2,632
Receivable from National Clearing Company of Pakistan Limited	(11,803)	-
Security deposits	(184)	-
	<b>(290,431)</b>	<b>152,110</b>
<b>Increase / (decrease) in liabilities</b>		
Payable to Management Company	1,006	(265)
Payable to Central Depository of Pakistan Limited - Trustee	-	(5)
Payable to Securities and Exchange Commission of Pakistan	(17)	(99)
Fair value of derivative liability	243	-
Accrued and other liabilities	1,831	(229)
	<b>3,063</b>	<b>(598)</b>
Dividend income received	7,705	14,401
<b>Net cash (used in) / generated from operating activities</b>	<b>(246,190)</b>	<b>170,496</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Receipts from issuance of units	416,082	2,867
Distribution paid	-	(107)
Payments against redemption of units	(124,088)	(253,464)
<b>Net cash generated / (used in) from financing activities</b>	<b>291,994</b>	<b>(250,704)</b>
Net increase / (decrease) in cash and cash equivalents	<b>45,804</b>	<b>(80,208)</b>
Cash and cash equivalents at beginning of the year	<b>22,560</b>	<b>102,768</b>
<b>Cash and cash equivalents at end of the year</b>	<b>68,364</b>	<b>22,560</b>

The annexed notes from 1 to 22 form an integral part of these financial statements.

  
\_\_\_\_\_  
Chief Executive Officer

MCB-Arif Habib Savings and Investments Limited  
(formerly: Arif Habib Investments Limited)  
(Management Company)

  
\_\_\_\_\_  
Director

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

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## 1. LEGAL STATUS AND NATURE OF BUSINESS

MCB Dynamic Allocation Fund (the Fund) was established under the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 (the NBFC Rules) and Non Banking Finance Companies and Notified Entities Regulations, 2007 and was approved as an open end investment scheme by the Securities and Exchange Commission of Pakistan (SECP) on 17 December 2007. It was constituted under a Trust Deed dated 22 November 2007 between MCB Asset Management Company Limited (MCB-AMC) as the Management Company, a company incorporated under the Companies Ordinance, 1984 and Central Depository Company of Pakistan Limited as the Trustee, also incorporated under the Companies Ordinance, 1984.

Based on shareholders' resolutions of MCB-Asset Management Company (MCB-AMC) and Arif Habib Investments Limited (AHIL), the two companies have merged as of 27 June 2011 through operation of an order from the SECP issued under Section 282L of the Companies Ordinance 1984 (Order through letter no. SCD/NBFC-II/MCBAMCL & AHIL/271/2011 dated 10 June 2011). AHIL being a listed company is the surviving entity and in compliance of State Bank of Pakistan (SBP's) approval, it is a subsidiary of MCB Bank Limited. Subsequent to the completion of merger on 27 June 2011 the SECP extended the effective date of merger to 30 July 2011 through letter no. SCD/PR & DD/AMCW/MCB-AMCL & AHI/348/2011 dated 27 June 2011 under section 484(2) of the Companies Ordinance 1984. However, during the period, on request of Management Company the SECP reviewed its aforementioned order and through a letter no. SCD/AMCW/Mis/540/2013 dated 17 May 2013 issued revised order under section 484(2) of the Companies Ordinance 1984 to affirm the effective date of merger of MCB-AMC with AHIL as 27 June 2011. The latest order also endorsed the steps/actions taken by Management Company from 27 June 2011 to date. Pursuant of approval of Merger the name of the Company have been changed from Arif Habib Investments Limited to MCB-Arif Habib Savings and Investments Limited.

The Management Company of the Fund has been licensed to act as Asset Management Company under the NBFC Rules through a certificate of registration issued by the SECP. The registered office of the Management Company is situated at 8th Floor, Techno City Corporate Tower, Hasrat Mohani Road, Karachi.

The Fund is an open ended mutual fund and offers units for public subscription on a continuous basis. The units of the Fund can be transferred to / from the funds managed by the Management Company and can also be redeemed by surrendering to the Fund. The units are listed on the Lahore Stock Exchange.

Under circular 7 dated 6 March 2009 issued by the SECP, the Fund is categorised as an Asset Allocation Scheme. The Management Company is in the process of making requisite amendments in relation to categorisation, investment objectives and relevant benchmark in the constitutive documents of the Fund.

The Pakistan Credit Rating Agency (PACRA) Limited has assigned an asset manager rating of 'AM2' (positive outlook) to the Management Company and has assigned a short-term ranking of "4-Star" & long-term of "5-Star" to the Fund.

Title to the assets of the Fund is held in the name of Central Depository Company of Pakistan Limited as Trustee of the Fund.

## 2. BASIS OF PREPARATION

### 2.1 Statement of compliance

These financial statements have been prepared in accordance with the approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board as are notified under the Companies Ordinance, 1984, the requirements of the Trust Deed, the Non Banking Finance Companies (Establishment and Regulation) Rules, 2003 (the NBFC Rules), the Non-Banking Finance Companies and Notified Entities Regulations, 2008 (the NBFC Regulations 2008) and directives issued by the SECP. Wherever, the requirements of the Trust Deed, the NBFC Rules, the NBFC Regulations 2008 and the said directives differ with the requirements of these standards, the requirements of the Trust Deed, the NBFC Rules, the NBFC Regulations, 2008 and the said directives shall prevail.



## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

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### 2.2 Basis of measurement

These financial statements have been prepared on the basis of historical cost convention except that financial assets are maintained at fair value.

### 2.3 Functional and presentation currency

These Financial statements are presented in Pak Rupees which is the functional and presentation currency of the Fund and rounded to the nearest thousand rupees.

### 2.4 Critical accounting estimates and judgments

The preparation of financial statements in conformity with approved accounting standards as applicable in Pakistan requires management to make judgments, estimates and assumptions that affect the application of policies and reported amount of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about the carrying values of assets and liabilities which are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of its revision and future periods if the revision affects both current and future periods. In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have most significant effect on the amount recognised in the financial statements are as follows:

#### *Investments stated at fair value and derivative financial instruments*

The management company has determined fair value of certain investments by using quotations from active market valuation done by Mutual Fund Association of Pakistan. Fair value estimates are made at a specific point in time, based on market conditions and information about the financial instruments. These estimates are subjective in nature and involve uncertainties and matter of judgements (e.g. valuation, interest rates, etc.) and therefore, can not be determined with precision.

Other assets

Judgement is also involved in assessing the realisability of the assets balances.

### 2.5 Standards, interpretations and amendments to published approved accounting standards that are not yet effective

A number of new Standards, amendments to Standards and interpretations are effective for annual periods beginning on or after 1 July 2013. None of these are expected to have a significant effect on the financial statements of the Fund except the following set out below:

- Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32) – (effective for annual periods beginning on or after 1 January 2014).
- Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7) – (effective for annual periods beginning on or after 1 January 2013).
- IAS 39 Financial Instruments: Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting (Amendments to IAS 39) (effective for annual periods beginning on or after 1 January 2014).

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

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### 2.6 Standards, amendments or interpretations which became effective during the year

During the year certain amendments to Standards or new interpretations became effective. However, the amendments or interpretations did not have any material effect on the financial statements of the Fund.

### 3. SIGNIFICANT ACCOUNTING POLICIES

The following significant accounting policies have been applied in preparation of these financial statement. These accounting policies have been applied consistently to all years presented.

#### 3.1 Financial instruments

The Fund classifies its financial instruments in the following categories:

*a) Financial instruments as 'at fair value through profit or loss'*

An instrument is classified as 'at fair value through profit or loss' if it is held-for-trading or is designated as such upon initial recognition. Financial instruments are designated as 'at fair value through profit or loss' if the Fund manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Fund's documented risk management or investment strategy. Financial assets which are acquired principally for the purpose of generating profit from short term price fluctuation or are part of the portfolio in which there is recent actual pattern of short term profit taking are classified as held for trading or a derivative. Financial instruments as 'at fair value through profit or loss' are measured at fair value and changes therein are recognised in the Income Statement.

All derivatives in a net receivable position (positive fair value), are reported as financial assets held for trading. All derivatives in a net payable position (negative fair value), are reported as financial liabilities held for trading.

*b) Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those classified by the Fund as 'at fair value through profit or loss' or 'available for sale'.

*c) 'Available-for-sale'*

'Available for sale' financial assets are non-derivative that are either designated in this category or not classified in any other category.

*d) Financial liabilities*

Financial liabilities, other than those as 'at fair value through profit or loss', are measured at amortised cost using the effective yield method.

#### *Recognition*

The Fund recognises financial assets and financial liabilities on the date it becomes a party to the contractual provisions of the instruments.

All purchases and sales of securities that require delivery within the time frame established by regulation or market convention such as 'T+2' purchases and sales are recognised at the trade date. Trade date is the date on which the Fund commits to purchase or sell the financial assets.

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

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Financial liabilities are not recognised unless one of the parties has performed its part of the contract or the contract is a derivative contract.

### ***Measurement***

Financial instruments are measured initially at fair value (transaction price) plus, in case of a financial instrument not as 'at fair value through profit or loss', transaction costs that are directly attributable to the acquisition or issue of the financial instruments. Transaction costs on financial instruments 'at fair value through profit or loss' are expensed out immediately.

Subsequent to initial recognition, financial instruments classified as 'at fair value through profit or loss' and 'available for sale' are measured at fair value. Gains or losses arising from changes in the fair value of the financial assets as 'at fair value through profit or loss' are recognised in the Income Statement. Changes in the fair value of financial instruments classified as 'available-for-sale' are recognised in Unit Holders' Fund until derecognised or impaired, when the accumulated adjustments recognised in Unit Holders' Fund are included in the Income Statement. The financial instruments classified as loans and receivables are subsequently measured at amortised cost less provision for impairment, if any.

### ***Basis of valuation of equity securities***

The investment of the Fund in equity securities is valued on the basis of closing quoted market prices available at the stock exchange.

### ***Basis of valuation of debt securities***

Investment in debt securities are valued at the rates determined and notified by Mutual Funds Association of Pakistan (MUFAP) as per the methodology prescribed by SECP via Circular 1 of 2009, Circular 33 of 2012 and Circular 35 of 2012. The Circulars also specify criteria for application of discretionary discount to yield of any debt security calculated by MUFAP and contain criteria for the provisioning of non-performing debt securities.

Investment in thinly and non-traded debt securities with maturity up to six months are valued at their amortised cost in accordance with the requirements of Circular 1 of 2009 issued by the SECP.

### ***Basis of valuation of government securities***

The fair value of the investments in government securities is determined by reference to the quotations obtained from the PKRV sheet on the Reuters page.

### ***Securities under repurchase/ resale agreements***

Transactions of purchase under resale (reverse-repo) of marketable and government securities, are entered into at contracted rates for specified periods of time. Securities purchased with a corresponding commitment to resell at a specified future date (reverse-repo) are not recognised in the Statement of Assets and Liabilities. Amounts paid under these agreements are recognised as receivable in respect of reverse repurchase transactions. The difference between purchase and resale price is treated as income from reverse repurchase transactions and accrued over the life of the agreement. All reverse repo transactions are accounted for on the settlement date.

### ***Impairment***

Financial assets not carried 'at fair value through profit or loss' are reviewed at each balance sheet date to determine whether there is any indication of impairment. A financial asset is impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of asset and that loss events had an impact on the future cash flows of that asset that can be estimated reliably.

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

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An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Impairment losses are recognised in Income Statement. Any subsequent decrease in impairment loss on debt securities classified as available-for-sale is recognised in Income Statement.

The Board of Directors of the Management Company has formulated a comprehensive policy for making provision against non-performing investments in compliance with Circular 13 of 2009 issued by SECP.

### ***Derecognition***

The Fund derecognises a financial asset when the contractual right to the cash flows from the financial assets expires or it transfers the financial assets and the transfer qualifies for derecognising in accordance with International Accounting Standard 39: Financial Instruments: Recognition and Measurement.

A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expired.

### ***Offsetting of financial instruments***

Financial assets and liabilities are offset and the net amount reported in the statement of assets and Liabilities when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

### **3.2 Preliminary expenses**

Preliminary expenses represent expenditure incurred prior to the commencement of operations of the Fund. These costs are being amortised over a period of five years commencing from March 16, 2008, as per the requirement of the Trust Deed of the Fund.

### **3.3 Provisions**

Provisions are recognised when the Fund has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the obligation can be made. Provisions are regularly reviewed and adjusted to reflect the current best estimate.

### **3.4 Taxation**

#### ***Current***

The income of the Fund is exempt from income tax under clause 99 of Part I of the Second Schedule to the Income Tax Ordinance, 2001 subject to the condition that not less than ninety percent of its accounting income of that year, as reduced by capital gains, whether realised or unrealised, is distributed amongst the Fund's unit holders.

The Fund is also exempt from the provisions of section 113 (minimum tax) under clause 11A of part IV of second schedule to the Income Tax Ordinance, 2001.

#### ***Deferred***

The Fund provides for deferred taxation using the balance sheet liability method on all major temporary differences between the amounts used for financial reporting purposes and amounts used for taxation purposes. In addition, the Fund also records deferred tax assets on unutilised tax losses to the extent that these will be available for set off against future taxable profits.

## **NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013**

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However, the Fund has previously availed the tax exemption by distributing at least ninety percent of its accounting income for the year as reduced by capital gains, whether realised or unrealised, to its unit holders. Accordingly, no current tax and deferred tax has been recognized in these financial statements.

### **3.5 Accrued and other liabilities**

Accrued and other liabilities are recognised initially at fair value and subsequently stated at amortised cost.

### **3.6 Net asset value per unit**

The net asset value (NAV) per unit, as disclosed on the Statement of Assets and Liabilities, is calculated by dividing the net assets of the Fund by the number of units in circulation at the year end.

### **3.7 Issue and redemption of units**

Units issued are recorded at the offer price, determined by the Management Company for the applications received by the distributors during business hours on that date. The offer price represents the net asset value per unit as of the close of the business day plus the allowable sales load, provision for transaction costs and any provision for duties and charges, if applicable. The sales load is payable to the investment facilitators, distributors and the Management Company. Transaction costs are recorded as the income of the Fund.

Units redeemed are recorded at the redemption price, applicable to units for which the distributors receive redemption requests during business hours of that day. The redemption price represents the net asset value per unit as of the close of the business day less any back-end load, any duties, taxes, charges on redemption and any provision for transaction costs, if applicable.

### **3.8 Element of income / (loss) and capital gains / (losses) included in the prices of units issued less those in units redeemed**

An equalisation account called the 'element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed' is created, in order to prevent the dilution of income per unit and distribution of income already paid out on redemption.

The Fund records that portion of the net element of income / (loss) and capital gains / (losses) relating to units issued and redeemed during an accounting period which pertains to income / (losses) held in the Unit Holder's Fund in a separate reserve account and any amount remaining in this reserve account at the end of an accounting period (whether gain or loss) is included in the amount available for distribution to the unit holders. The remaining portion of the net element of income / (loss) and capital gains / (losses) relating to units issued and redeemed during an accounting period is recognised in the Income Statement.

### **3.9 Revenue recognition**

- Mark-up on term finance certificates, government securities and money market placements are recognised on an accrual basis.
- Realized capital gains / (losses) arising on sale of investments are included in the income statement on the date at which the transaction takes place.
- Unrealised capital gain/ (losses) arising on re-measurement of investments classified as Financial assets at fair value through profit or loss' are included in the income statement in the period in which they arise.
- Profits on bank deposits are recognised on an accrual basis.
- Dividend income on equity securities is recognised when the right to receive dividend is established.
- Element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed is included in the income statement on the date of issue and redemption of units.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2013**

**3.10 Expenses**

All expenses including Management fee, Trustee fee and Securities Exchange Commission of Pakistan fee are recognised in the Income Statement on an accrual basis.

**3.11 Cash and cash equivalents**

Cash and cash equivalents comprise of deposits and current accounts maintained with banks. Cash equivalents are short term highly liquid investments that are readily convertible to known amounts of cash, are subject to an insignificant risk of changes in value, and are held for the purpose of meeting short term cash commitments rather than for investments and other purposes.

**3.12 Other assets**

Other assets are stated at cost less impairment losses, if any.

**3.13 Dividend distributions and appropriations**

Dividend distributions and appropriations are recorded in the period in which the distributions and appropriations are approved.

**4. BALANCES WITH BANKS**

		2013	2012
		(Rupees in '000)	
Saving accounts	4.1	68,364	21,381
Current account		-	1,179
		68,364	22,560

4.1 These carry Mark-up at rates ranging from 6% to 11.5% per annum (2012: 6% to 11.5% per annum).

**5. INVESTMENTS**

**At fair value through profit or loss - 'held for trading'**

- Quoted equity securities	5.1	173,961	18,462
- Term finance certificates - listed	5.2	35,219	36,350
- Term finance certificates - unlisted	5.3	-	4,977
- Government Securities	5.4	131,038	14,613
		340,218	74,402

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2013**

**5.1 Quoted equity securities**

Name of investee company	As at 1 July 2012	Purchased during the period	Bonus/ rights issue during the period	Sales during the period	As at 30 June 2013	Carrying value as at 30 June 2013	Market value as at 30 June 2013	Appreciation / (diminution) as at 30 June 2013	Market value as percentage of net assets	Market value as percentage of total investments	Par value as percentage of the issued capital of the investee company
-----Number of shares-----											
----- (Rupees in '000) -----											
<b>Oil and gas</b>											
Attock Petroleum Limited	-	62,300	-	48,800	13,500	7,492	7,575	83	1.75%	2.23%	0.31%
Attock Refinery Limited	-	307,500	-	284,000	23,500	4,064	4,055	(9)	0.94%	1.19%	0.47%
National Refinery Limited	-	10,000	-	10,000	-	-	-	-	-	-	-
Oil and Gas Development Company Limited	2,500	158,800	-	146,700	14,600	3,172	3,340	168	0.77%	0.98%	0.39%
Pakistan Oilfields Limited	-	138,605	-	123,605	15,000	7,707	7,461	(246)	1.72%	2.19%	0.32%
Pakistan Petroleum Limited	19,620	285,000	-	171,620	133,000	28,703	28,140	(563)	6.50%	8.27%	0.07%
Pakistan State Oil Company Limited	-	179,900	-	113,900	66,000	20,769	21,145	376	4.89%	6.22%	0.13%
						71,907	71,716	(191)	16.57%	21.08%	
<b>Chemicals</b>											
Engro Corporation Limited	-	476,500	-	260,000	216,500	26,556	26,385	(171)	6.10%	7.76%	0.52%
Fatima Fertilizers Company Limited	43,246	928,522	-	525,268	446,500	11,144	11,087	(57)	2.56%	3.26%	0.12%
Fauji Fertilizer Bin Qasim Limited	-	290,000	-	138,000	152,000	6,378	5,706	(672)	1.32%	1.68%	0.12%
Fauji Fertilizer Company Limited	-	416,800	-	416,800	-	-	-	-	-	-	-
I.C.I. Pakistan Limited	-	129,000	-	129,000	-	-	-	-	-	-	-
						44,078	43,178	(900)	9.98%	12.70%	
<b>Construction &amp; Materials</b>											
Cherat Cement Company Limited	-	218,000	-	218,000	-	-	-	-	-	-	-
D. G. Khan Cement Company Limited	-	579,500	-	579,500	-	-	-	-	-	-	-
Fauji Cement Company Limited	-	869,500	-	485,000	384,500	5,117	5,110	(7)	1.18%	1.50%	0.39%
Fecto Cement Limited	-	49,500	-	49,500	-	-	-	-	-	-	-
Kohat Cement Company Limited	-	304,500	-	181,500	123,000	10,510	10,556	46	2.44%	3.10%	0.82%
Lafarge Pakistan Cement Limited	200,000	100,000	-	300,000	-	-	-	-	-	-	-
Lucky Cement Limited	-	360,967	-	360,967	-	-	-	-	-	-	-
						15,627	15,666	39	3.62%	4.60%	
<b>General Industries</b>											
Arif Habib Corporation Limited	-	61,500	-	61,500	-	-	-	-	-	-	-
<b>Auto Mobile and Parts</b>											
Indus Motors Company Limited	-	10,000	-	10,000	-	-	-	-	-	-	-
Millat Tractors Limited	8,500	-	-	8,500	-	-	-	-	-	-	-
Pak Suzuki Motor Company Limited	-	21,000	-	2,000	19,000	2,218	2,826	608	0.65%	0.83%	1.96%
						2,218	2,826	608	0.65%	0.83%	
<b>Food Producers</b>											
Engro foods Company Limited	-	76,000	-	-	76,000	10,781	10,698	(83)	2.47%	3.14%	1.61%
Unilever Pakistan Limited*	-	2,368	-	2,368	-	-	-	-	-	-	-
						10,781	10,698	(83)	2.47%	3.14%	

Unless stated otherwise, the holdings are in ordinary shares of Rs. 10 each.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2013**

Name of investee company	As at 1 July 2012	Purchased during the period	Bonus/ rights issue during the period	Sales during the period	As at 30 June 2013	Carrying value as at 30 June 2013	Market value as at 30 June 2013	Appreciation / (diminution) as at 30 June 2013	Market value as percentage of net assets	Market value as percentage of total investments	Par value as percentage of issued capital of the investee company
-----Number of shares-----											
<b>Personal Goods</b>											
Blessed Textile Limited	-	11,500	-	11,500	-	-	-	-	-	-	-
Nishat Chunanian Limited	-	150,000	-	150,000	-	-	-	-	-	-	-
Nishat Mills Limited	-	357,500	-	349,500	8,000	743	754	11	0.17%	0.22%	0.75%
						743	754	11	0.17%	0.22%	
<b>Pharma And Bio Tech</b>											
Abbot Laboratories (Pakistan) Limited	10,114	15,000	-	25,114	-	-	-	-	-	-	-
Glaxosmithkline Pakistan Limited	39,000	25,000	-	64,000	-	-	-	-	-	-	-
									0.00%	0.00%	
<b>Fixed Line Telecommunication</b>											
Clariant Pakistan Limited	-	11,000	-	11,000	-	-	-	-	-	-	-
Netsol Technologies limited	-	21,500	-	-	21,500	729	699	(30)	0.16%	0.21%	0.09%
Pakistan Telecommunication Company Limited	-	557,500	-	300,500	257,000	5,434	5,703	269	1.32%	1.68%	0.02%
Wateen Telecom Company Limited	-	1,050,000	-	1,050,000	-	-	-	-	-	-	-
						6,163	6,402	239	1.48%	1.89%	
<b>Electricity</b>											
Kot Addu Power Company Limited	-	369,000	-	369,000	-	-	-	-	-	-	-
Nishat Chunanian Power Limited	453	548,000	-	548,453	-	-	-	-	-	-	-
Nishat Power Limited	22,386	532,541	-	554,927	-	-	-	-	-	-	-
The Hub Power Company Limited	103,243	1,323,500	-	1,276,743	150,000	8,989	9,248	259	2.14%	2.72%	0.25%
						8,989	9,248	259	2.14%	2.72%	
<b>Banks</b>											
Askari Bank Limited	-	1,020,500	-	1,004,972	15,528	245	236	(9)	0.05%	0.07%	-
Bank Al-Falah Limited	-	900,500	-	490,000	410,500	7,232	7,479	247	1.73%	2.20%	0.09%
Bank AL-Habb Limited	-	668,000	-	530,000	138,000	4,159	3,752	(407)	0.87%	1.10%	0.04%
MCB Bank Limited	-	22,500	-	22,500	-	-	-	-	-	-	-
Meezan Bank Limited	-	145,000	15,950	160,000	950	26	28	2	0.01%	0.01%	-
National Bank Of Pakistan Limited	-	10,000	-	10,000	-	-	-	-	-	-	-
United Bank Limited	-	100,000	-	96,000	4,000	414	430	16	0.10%	0.13%	-
						12,076	11,925	(151)	2.76%	3.51%	
<b>Non Life Insurance</b>											
Adamjee Insurance Company Limited	-	11,500	-	-	11,500	902	875	(27)	0.20%	0.26%	0.07%
Pakistan Reinsurance Company Limited	-	320,000	-	291,500	28,500	625	673	48	0.16%	0.20%	0.02%
						1,527	1,548	21	0.36%	0.46%	
<b>Total - 30 June 2013</b>						<b>174,109</b>	<b>173,961</b>	<b>(148)</b>	<b>30.22%</b>	<b>38.45%</b>	
Total - 30 June 2012						18,645	18,462	(183)	18.39%	24.81%	

Unless stated otherwise, the holdings are in ordinary shares of Rs. 10 each.

\* the face value of shares held is Rs. 50 per share



**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2013**

**5.1.1** Investments include shares with market value aggregating of Rs. 13.98 million (30 June 2012: 4.5 million ) which have been pledged with National Clearing Company of Pakistan Limited for guaranteeing settlement of the Fund's trades in term of Circular No. 11 dated 23 October 2007 issued by the Securities and Exchange Commission of Pakistan.

**5.1.2** Cost of investment of equity securities is Rs. 174.11 million ( 2012: Rs. 18.64 million)

**5.2 Term finance certificates - listed**

Name of investee company	Issue Date	As at 1 July 2012	Purchased during the year	Sold / matured during the year	As at 30 June 2013	Carrying Cost as at 30 June 2013	Market value as at 30 June 2013	Appreciation/ (Diminution) as at 30 June 2013	Market value		Face value percentage in relation to the size of the issue
									as a percentage of net assets	as a percentage of total investments	
----- Number of certificates ----- (Rupees in '000) -----											
Certificates having a face value of Rs. 5,000 each unless stated otherwise											
Askari Bank Limited-III	18-Nov-09	5,000	-	2,002	2,998	15,830	15,108	(722)	3.49%	4.44%	0.50%
NIB Bank Limited	5-Mar-08	2,000	2,000	2,000	2,000	10,030	9,954	(76)	2.30%	2.93%	0.33%
Bank Alfalah Limited-V	20-Feb-13	-	2,000	-	2,000	10,000	10,157	157	2.35%	2.99%	0.20%
<b>Total - 30 June 2013</b>						<b>35,860</b>	<b>35,219</b>	<b>(641)</b>	<b>8.14%</b>	<b>10.36%</b>	
-----											
<b>Total - 30 June 2012</b>						<b>35,716</b>	<b>36,350</b>	<b>634</b>	<b>10.79%</b>	<b>16.01%</b>	

**5.3 Term finance certificates - unlisted**

Name of investee company	Issue Date	As at 1 July 2012	Purchased during the year	Sold / matured during the year	As at 30 June 2013	Carrying Cost as at 30 June 2013	Market value as at 30 June 2013	Appreciation/ (Diminution) as at 30 June 2013	Market value		Face value percentage in relation to the size of the issue
									as a percentage of net assets	as a percentage of total investments	
----- Number of certificates ----- (Rupees in '000) -----											
Certificates having a face value of Rs. 5,000 each unless stated otherwise											
Bank Alfalah Limited-II	23-Nov-04	2,000	-	2,000	-	-	-	-	-	-	-
United Bank Limited-1	10-Aug-04	1,000	-	1,000	-	-	-	-	-	-	-
<b>Total - 30 June 2013</b>						<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
-----											
<b>Total - 30 June 2012</b>						<b>4,795</b>	<b>4,977</b>	<b>182</b>	<b>4.96%</b>	<b>6.69%</b>	

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2013**

5.4 Significant terms and conditions of Term Finance Certificate and Sukuk Certificate outstanding are as follows:

<b>Name of security</b>	<b>Mark-up rate (per annum)</b>	<b>Issue date</b>	<b>Maturity date</b>
Askari Bank Limited-III	6 months KIBOR 2.50%	18-Nov-09	18-Nov-19
NIB Bank Limited	6 months KIBOR 1.15%	5-Mar-08	5-Mar-16
Bank Alfalah Limited-V	6 months KIBOR 1.25%	20-Feb-13	20-Feb-21
Bank Alfalah Limited-II	6 months KIBOR 1.50%	23-Nov-04	23-Nov-12
United Bank Limited-I	8.45%	10-Aug-04	10-Aug-12

5.5 Government Securities

Particulars	As at 1 July 2012	Purchased during the year	Sold during the year	Matured during the year	As at 30 June 2013	Carrying value as at 30 June 2013	Market Value as at 30 June 2013	Appreciation / (diminution) as at 30 June 2013	Market value	
									as a percentage of net assets	as a percentage of total investments
-----Face value----- (Rupees in '000)-----										
Treasury Bills										
Treasury bills - 1 year	15,000	1,897,500	1,827,500	-	85,000	78,380	78,571	191	18.16%	23.09%
<b>Total - 30 June 2013</b>						<b>78,380</b>	<b>78,571</b>	<b>191</b>	<b>18.16%</b>	<b>23.09%</b>
Total - 30 June 2012						14,605	14,613	8	14.55%	19.64%
<b>Pakistan Investment Bonds</b>										
PIB - 3 years	-	350,000	325,000	-	25,000	25,578	25,960	382	6.00%	7.63%
PIB - 5 years	-	185,000	185,000	-	-	-	-	-	-	-
PIB - 10 years	-	100,000	75,000	-	25,000	26,307	26,507	200	6.13%	7.79%
<b>Total - 30 June 2013</b>						<b>51,885</b>	<b>52,467</b>	<b>582</b>	<b>12%</b>	<b>15%</b>
Total - 30 June 2012						-	-	-	-	-
<b>Total investment in Government Securities - 30 June 2013</b>						<b>130,265</b>	<b>131,038</b>	<b>773</b>	<b>30%</b>	<b>38%</b>
Total investment in Government Securities - 30 June 2012						14,605	14,613	8	-	-

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2013**

**5.5.1** These treasury bills have a cost of Rs. 77.792 million (2012 : Rs.14.605 million) maturing up till 12 June 2014 (2012 : 20 September 2012) and carry effective yield ranging between 9.2075% to 9.4110% per annum (2012 : 11.78%).

**5.5.2** These Pakistan Investment Bonds have a cost of Rs.51.885 million (2012 : nil) maturing till 19 July 2015 (2012: nil) and carry interest at the rate of 11.25% to 12% (2012: nil) per annum.

**6. DIVIDEND AND PROFIT RECEIVABLES**

**2013                      2012**  
**(Rupees in '000)**

Dividend receivable	101	31
Interest receivable on term finance certificates	961	968
Profit receivable on government securities	2,596	-
Profit receivable on saving deposits	29	204
	<b>3,687</b>	<b>1,203</b>

**7. SECURITY DEPOSITS**

Security deposits with		
- National Clearing Company of Pakistan Limited	4,184	4,000
- Central Depository Company of Pakistan Limited	100	100
	<b>4,284</b>	<b>4,100</b>

**8. PRELIMINARY EXPENSES**

Opening balance	707	1,710
Less: amortisation during the year	707	1,003
Closing balance	-	707

**8.1** Preliminary expenses represent expenditure incurred prior to the commencement of operations of the Fund. This expenditure is being amortised over a period of five years commencing from 16 March 2008.

**9. PAYABLE TO MANAGEMENT COMPANY**

Management fee payable	<i>9.1</i>	636	144
Sales load payable		516	2
		<b>1,152</b>	<b>146</b>

**9.1** Under the provisions of the NBFC Regulations, 2008, the Management Company of the Fund is entitled to a remuneration, during the first five years of the Fund of an amount not exceeding three percent of the average annual net assets of the Fund and thereafter, of an amount equal to two percent of such assets of the Fund and, in any case, it shall not exceed the limit prescribed by the NBFC Regulations, 2008. During the year, the Management Company has charged its remuneration at the rate of 1.50% (2012: 1.50%) of the average annual net assets of the Fund. The remuneration is paid to the Management Company on a monthly basis in arrears. During 2011, the Local Government (Sindh) has levied General Sales Tax at the rate of 16% on the remuneration of the Management Company. Further during the year, Federal Government has levied Federal Excise Duty (FED) at the rate of 16% through the Finance Act 2013 effective from 13 June 2013. Accordingly, the Management fee charged is inclusion of all government levies.

**10. PAYABLE TO CENTRAL DEPOSITORY OF PAKISTAN LIMITED - TRUSTEE**

Remuneration payable	<i>10.1</i>	59	57
CDS charges payable		-	2
		<b>59</b>	<b>59</b>

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2013**

- 10.1** The Trustee is entitled to a monthly remuneration for services rendered to the Fund under the provisions of the Trust Deed and Offering Document as per the tariff specified therein, based on the daily net asset value of the Fund. The remuneration is paid to the Trustee monthly in arrears.

As per the Trust Deed and Offering Document, the tariff structure applicable to the Fund in respect of the trustee fee for the year ended 30 June 2013 is as follows:

Net Assets	Tariff per annum
Up to Rs. 1,000 million	Rs. 0.7 million or 0.20% p.a. of NAV, whichever is higher
On an amount exceeding Rs. 1,000 million	Rs. 2.0 million plus 0.10% p.a. of NAV exceeding Rs. 1,000 million

**11. PAYABLE TO SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN**

Under the provisions of the Non Banking Finance Companies and Notified Entities Regulations, 2008 (the NBFC Regulations), a collective investment scheme is required to pay as annual fee to the SECP, an amount equal to 0.095 percent of the average annual net assets of the Fund.

**12. ACCRUED AND OTHER LIABILITIES**

	2013	2012
	(Rupees in '000)	
Auditors' remuneration payable	400	425
Brokerage payable	366	-
Provision for Workers' Welfare Fund	12.1 3,965	2,375
Others	347	447
	<u>5,078</u>	<u>3,247</u>

- 12.1** The Finance Act 2008 introduced an amendment to the Workers' Welfare Fund Ordinance, 1971 (WWF Ordinance). As a result of this amendment it may be construed that all Collective Investment Schemes / mutual funds (CISs) whose income exceeds Rs 0.5 million in a tax year, have been brought within the scope of the WWF Ordinance, thus rendering them liable to pay contribution to WWF at the rate of two percent of their accounting or taxable income, whichever is higher. In this regard, a constitutional petition has been filed by certain CISs through their trustees in the Honourable High Court of Sindh (the Court), challenging the applicability of WWF to the CISs, which is pending for adjudication. However, without prejudice to the above, the Management Company made a provision for WWF contribution in the annual financial statements till the year ended 30 June 2011.

Subsequent to the year ended 30 June 2010, a clarification was issued by the Ministry of Labour and Manpower (the Ministry) which stated that mutual funds are not liable to contribute to WWF on the basis of their income. However on 14 December 2010 the Ministry filed its response against the Constitutional petition requesting the court to dismiss the petition. According to the legal council who is handling the case, there is a contradiction between the aforementioned clarification issued by the Ministry and the response filed by the Ministry in Court.

During the year ended 30 June 2012, the Honourable Lahore High Court (LHC) in a Constitutional Petition relating to the amendments brought in the WWF Ordinance, 1971 through the Finance Act, 2006 and the Finance Act, 2008 has declared the said amendments as unlawful and unconstitutional and struck them down. In March 2013 a larger bench of the Sindh High Court (SHC) in various constitutional petitions filed by companies other than mutual funds declared that amendments brought in the WWF Ordinance, 1971 through the Finance Act, 2006, and the Finance Act 2008, do not suffer from any constitutional or legal infirmity.

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However, as per advice of legal counsel the stay granted to CIS remains intact and the constitution petitions filed by the CIS to challenge the WWF contribution have not been affected by the SHC judgment.

In the view of the afore mentioned developments and uncertainties created by the recent decision by Honourable Sindh High Court, the Management company, as a matter of abundant precaution, has decided to charge the provision for workers' welfare fund amounting to Rs. 1.590 million (including Rs. 0.162 million for the year ended 30 June 2012) in these financial statements.

**13. CONTINGENCIES AND COMMITMENTS**

There were no contingencies and commitments outstanding as at 30 June 2013.

**14. AUDITOR'S REMUNERATION**

	2013	2012
	(Rupees in '000)	
Annual audit fee	300	300
Half yearly review	200	200
Other certifications and services	100	125
Out of pocket expenses	37	33
	<b>637</b>	<b>658</b>

**15. TAXATION**

The Fund's income is exempt from Income Tax as per clause (99) of part I of the Second Schedule of the Income Tax Ordinance, 2001 subject to the condition that not less than 90% of the accounting income for the year as reduced by capital gains whether realised or unrealised is distributed amongst the unit holders. Furthermore, as per regulation 63 of the Non-Banking Finance Companies and Notified Entities Regulation, 2008, the fund is required to distribute 90% of the net accounting income other than unrealised capital gains to the unit holders. The Fund is also exempt from the provision of Section 113 (minimum tax) under clause 11A of Part IV of the Second Schedule to the Income Tax Ordinance 2001. Since the management has distributed the income earned by the Fund during the year to the unit holders in the manner as explained above, accordingly no provision for taxation has been made in these financial statements.

**16. EARNINGS PER UNIT**

Earning per unit has not been disclosed as in the opinion of the management, determination of cumulative weighted average number of outstanding units for calculating loss per unit is not practicable.

**17. TRANSACTIONS WITH CONNECTED PERSONS / RELATED PARTIES**

Related parties / connected persons of the Fund include the Management Company, other collective investment schemes managed by the Management Company, MCB Bank Limited being the holding company of the Management Company, the Trustee, directors and key management personnel, other associated undertakings and unit holders holding more than 10% units of the Fund.

Remuneration payable to the Management Company and the Trustee is determined in accordance with the provision of the NBFC Regulations 2008 and constitutive documents of the Fund.

The transactions with connected persons / related parties are in the normal course of business and are carried out on agreed terms.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
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**17.1 Details of transactions with the connected persons / related parties during the year are as follows:**

	2013	2012
	(Rupees in '000)	
<b>Management Company</b>		
Remuneration of the Management Company	3,672	3,950
Federal Excise duty on remuneration of Management Company	50	-
Sind sales tax on remuneration of Management Company	596	632
<b>Central Depository Company of Pakistan Limited - Trustee</b>		
Remuneration of the Trustee	700	700
CDC settlement charges	36	43
<b>MCB Bank Limited</b>		
Dividend received	90	75
Profit on bank deposits	362	101
Bank Charges	14	13
<b>D.G Khan Cement Company Limited</b>		
Dividend received	436	-
<b>Nishat Mills Limited</b>		
Dividend received	373	-
<b>Nishat Chunain Power Limited</b>		
Dividend received	516	1,304
<b>Fatima Fertilizer Company Limited</b>		
Dividend received	138	-
<b>Next Capital Limited</b>		
Brokerage *	67	108
<b>Arif Habib Limited</b>		
Brokerage *	123	230

**17.2 Balance outstanding as at the year end are as follows:**

<b>Management Company</b>		
Remuneration payable to Management Company	498	124
Federal Excise duty on remuneration of Management Company	50	-
Sales tax payable on remuneration of Management Company	88	20
Sales load payable	516	2
<b>Central Depository Company of Pakistan Limited - Trustee</b>		
Remuneration payable to the Trustee	59	57
CDC settlement charges	-	2
Security Deposits	100	100
<b>MCB Bank Limited</b>		
Bank deposits	10,902	999
Profit receivable	29	4

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
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	2013	2012
	(Rupees in '000)	
<b>Fatima Fertilizer Company Limited</b> 446,500 Shares held by the fund (2012: 43,246 Shares)	<u>11,087</u>	<u>1,087</u>
<b>Nishat Mills Limited</b> 8,000 Shares held by the fund (2012: Nil Shares)	<u>754</u>	<u>-</u>
<b>Nishat Power Limited</b> Nil Shares held by the fund (2012: 22,386 shares)	<u>-</u>	<u>329</u>
<b>Nishat Chunian Power Limited</b> Nil Shares held by the fund (2012:453 shares)	<u>-</u>	<u>7</u>
<b>Adamjee Insurance Company Limited</b> 11,500 shares held by the fund (2012:nil shares)	<u>875</u>	<u>-</u>
<b>Arif Habib Limited</b> Brokerage *	<u>23</u>	<u>-</u>
<b>Next Capital Limited</b> Brokerage *	<u>5</u>	<u>-</u>

\* The amount disclosed represents the amount of brokerage paid to connected persons and not the purchase or sale value of securities transacted through them. The purchase or sale value has not been treated as transactions with connected persons as the ultimate counter parties are not connected persons.

**17.3 Transactions during the year with connected persons / related parties in the units of the Fund:**

	2013		2012	
	Units	(Rupees in	Units	(Rupees in
<b>Units sold to:</b>				
Management Company	<u>1,820,071</u>	<u>135,000</u>	<u>-</u>	<u>-</u>
Key management personnel	<u>1,386</u>	<u>113</u>	<u>-</u>	<u>-</u>
<b>Units redeemed by:</b>				
Management Company	<u>653,153</u>	<u>50,000</u>		
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
	<b>Units</b>		<b>(Rupees in '000)</b>	
<b>Units held by:</b>				
Management Company	<u>1,166,918</u>	<u>-</u>	<u>98,348</u>	<u>-</u>
D. G. Khan Cement Company Limited Employees Provident Fund)	<u>22,285</u>	<u>22,285</u>	<u>1,878</u>	<u>1,575</u>
Key management personnel	<u>1,386</u>	<u>-</u>	<u>117</u>	<u>11,504</u>

**18. FINANCIAL RISK MANAGEMENT**

The Board of Directors of management company has overall responsibility for the establishment and oversight of the Fund's risk management framework. The Board is also responsible for developing and monitoring the Fund's risk management policies.

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

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The Fund's risk management policies are established to identify and analyse the risks faced by the Fund, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Fund's activities.

The Fund's activities expose it to a variety of financial risks such as:

- Market risk
- Credit risk and
- Liquidity risk

### 18.1 Market risk

Market risk is the risk that the fair values or future cash flows of the financial instruments will fluctuate as a result of changes in market interest rates or the market price of securities due to a change in credit rating of the issuer or the instrument, change in market sentiments, speculative activities, supply and demand of securities and liquidity in the market.

The Management Company manages market risk by monitoring exposure on marketable securities by following the internal risk management policies and investment guidelines and regulations laid down by the SECP.

Market risk comprises of three types of risk: currency risk, interest rate risk and other price risk.

#### *Currency risk*

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund, at present is not exposed to currency risk as all transactions are carried out in Pak Rupee

#### *Interest rate risk*

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

#### *a) Sensitivity analysis for fixed rate instruments*

As at 30 June 2013, the Fund holds Treasury Bills which are classified as at fair value through profit or loss exposing the Fund to fair value interest rate risk. In case of 100 basis points increase / decrease in rates announced by Financial Markets Association of Pakistan on 30 June 2013 with all other variables held constant, the net income for the year and net assets would be lower / higher by Rs. 0.666 million (2012: Rs. 0.032).

As at June 30, 2013, the Fund holds Pakistan Investment Bonds which are classified as at fair value through profit or loss, exposing the Fund to fair value interest rate risk. In case of 100 basis points increase in rates announced by the Financial Market Association on June 30, 2013, the net income for the year and net assets would be lower by Rs. 1.885 million (2012: Nil). In case of 100 basis points decrease in rates announced by the Financial Market Association on June 30, 2013, the net income for the year and net assets would be higher by Rs. 2.005 million (2012: Nil).

#### *b) Sensitivity analysis for variable rate instruments*

Presently, the Fund holds KIBOR based interest bearing Term Finance Certificates exposing the Fund to cash flow interest rate risk. In case of 100 basis points increase / decrease in KIBOR on 30 June 2013, with all other variables held constant, the net assets of the Fund and net income for the year would have been higher / lower by Rs.0.05 million (2012: Rs 0.07 million).



## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

The composition of the Fund's investment portfolio and rates announced by Financial Markets Association of Pakistan is expected to change over time. Accordingly, the sensitivity analysis prepared as of 30 June 2013 is not necessarily indicative of the impact on the Fund's net assets of future movements in interest rates.

### Other price risk

Other price risk is the risk of changes in the fair value of equity securities as the result of changes in the levels of Karachi Stock Exchange (KSE) and other respective market indices and the value of individual shares. The equity price risk exposure arises from the Fund's investments in equity securities. This arises from investments held by the Fund for which prices in the future are uncertain. The Fund's policy is to manage price risk through diversification within specified limits set by internal risk management guidelines.

The fund is exposed to equity price risk because of investments held by the Fund and classified on the Statement of Assets and Liabilities as financial assets at fair value through profit or loss. To manage its price risk arising from investments in equity securities, the Fund diversifies its portfolio within the eligible stocks prescribed in the trust deed. The Fund's constitutive document / NBFC Regulations also limit individual equity securities to no more than 10% of net assets, or issued capital of the investee company and sector exposure limit to 25% of net assets.

A summary analysis of local investments by industry sector, the percentage in relation to Fund's own net assets and the issued capital of the investee company is presented in note 5.1.

The table below summarises the sensitivity of the Fund's net assets attributable to unit holders to equity price movements as at 30 June. The analysis is based on the assumption that KSE-100 index increased by 5% and decreased by 5%, with all other variables held constant and that the fair value of the Fund's portfolio of equity securities moved according to their historical correlation with the index. This represents management's best estimate of a reasonable possible shift in the KSE-100 index, having regard to the historical volatility of index of past three years.

At 30 June, the fair value of equity securities exposed to price risk is disclosed in note 5.1.

The impact below arises from the reasonable possible change in the fair value of listed equity securities.

	<b>2013</b>	<b>2012</b>
	<b>(Rupees in '000)</b>	
Effect on income statement, net assets attributable to unit holders and equity investments due to increase / decrease in the KSE-100 index	<u><b>8,783</b></u>	<u>720</u>

The sensitivity analysis presented is based upon the portfolio composition as at 30 June 2013 and the historical correlation of the securities comprising the portfolio to the index. The composition of the Fund's investment portfolio and the correlation thereof to the KSE and other respective market indices, is expected to change over time. Accordingly, the sensitivity analysis prepared as at 30 June 2013 is not necessarily indicative of the effect on the Fund's net assets attributed to unit holders of future movements in the level of the KSE and other respective market indices.

### 18.2 Credit risk

Credit risk arises from the inability of the issuers of the instruments, the relevant financial institutions or counter parties in case of reverse re-purchase transactions or other arrangements to fulfill their obligations resulting in financial loss to the Fund. These credit exposures exist within financing relationships, derivatives and other transactions. There is also a risk of default by participants and of failure of the financial markets / stock exchanges, the depositories, the settlements or the central clearing system etc.

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

The credit risk of the Fund mainly arises from its investment in debt securities. The Fund is also exposed to counterparty credit risk on cash and cash equivalents, deposits and other receivable balances.

### *Credit risk management*

It is the Fund's policy to enter into financial contracts with reputable, diverse and creditworthy counterparties and wherever possible or deemed necessary obtain collaterals in accordance with internal risk management policies and investment guidelines designed for credit risk management. The Investment Committee closely monitors the creditworthiness of the Fund's counterparties by reviewing their credit ratings, financial statements and press releases on a regular basis.

### *Exposure to credit risk*

In summary, compared to the maximum amount included in Statement of Assets and Liabilities, the maximum exposure to credit risk as at 30 June is as follows:

	2013		2012	
	Statement of Assets and Liabilities (Rupees in '000)	Maximum Exposure (Rupees in '000)	Statement of Assets and Liabilities (Rupees in '000)	Maximum Exposure (Rupees in '000)
Balances with banks	68,364	68,364	22,560	22,560
Investments	340,218	35,219	74,402	36,350
Receivable against sale of investments	10,128	-	173	-
Dividend and profit receivables	3,687	3,687	1,203	1,203
Receivable from National Clearing Company of Pakistan Limited	12,764	-	-	-
Security deposits	4,284	4,284	4,100	4,100
	<b>439,445</b>	<b>111,554</b>	<b>102,438</b>	<b>64,213</b>

Difference in the balance as per Statement of Assets and Liabilities and maximum exposure in investment is due to the fact that investment in equity securities of Rs. 173.961 million (2012: 18.462 million) and receivable against sale of investment amounting to Rs. 10.128 (2012: 173 million) are not exposed to credit risk.

Investment in Government securities amounting to Rs. 131.038 million (2012: 14.613 million) do not expose the Fund to credit risk as the counter party to the investment is the Government of Pakistan.

None of the financial assets were considered to be past due or impaired as on 30 June 2012.

Details of credit rating of balance with banks as at 30 June are as follows:

	2013 (Percentage holding)	2012
AA+	15.94%	8.28%
AA	84.04%	90.63%
AA-	0.02%	1.09%
	<b>100.00%</b>	<b>100.00%</b>

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

The analysis below summarises the credit quality of the Fund's investment in term financial certificates as at 30 June:

	2013	2012
	(Percentage holding)	
AA	0.00%	3.96%
AA-	71.74%	71.99%
A+	28.26%	24.05%
	100.00%	100.00%

### *Concentration of credit risk*

Concentration of credit risk exists when changes in economic or industry factors similarly affect groups of counterparties whose aggregate credit exposure is significant in relation to the Fund's total credit exposure. The Fund's portfolio of financial instruments is broadly diversified and transactions are entered into with diverse credit-worthy counterparties thereby mitigating any significant concentrations of credit risk.

Details of the Fund's concentration of credit risk of financial instruments by industrial distribution are as follows:

	30 June 2013		30 June 2012	
	(Rupees in '000)	Percentage	(Rupees in '000)	Percentage
Commercial banks	68,364	61.28%	22,560	35.13%
Others	43,190	38.72%	41,653	64.87%
	111,554	100.00%	64,213	100.00%

### *Settlement risk*

The Fund's activities may give rise to risk at the time of settlement of transactions. Settlement risk is the risk of loss due to the failure of an entity to honour its obligations to deliver cash, securities or other assets as contractually agreed.

For the vast majority of transactions the Fund mitigates this risk by conducting settlements through a broker to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations.

### **18.3 Liquidity risk**

Liquidity risk is the risk that the Fund will encounter difficulty in meeting its obligations arising from its financial liabilities that are settled by delivering cash or other financial assets or that such obligations will have to be settled in a manner disadvantageous to the Funds. Liquidity risk also arises because of the possibility that the Fund could be required to pay its liabilities earlier than expected. The Fund is exposed to cash redemptions of its units on a regular basis. Units are redeemable at the holder's option based on the Fund's applicable redemption price calculated in accordance with the Fund's constitutive documents and guidelines laid down by the SECP.

The Fund's policy to managing liquidity is to have sufficient liquidity to meet its liabilities, including estimated redemptions of units as and when due, without incurring undue losses or risking damage to the Fund's reputation.

The Fund has the ability to borrow, with prior approval of trustee, for meeting redemption requests. The maximum amount available to the Fund from borrowings is limited to the extent of 15% of net assets at the time of borrowing with a condition of repayment within 90 days of such borrowings. No such borrowings have arisen during the year.

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

In order to manage the Fund's overall liquidity, the Fund may also withhold daily redemption requests in excess of ten percent of the units in issue and such requests would be treated as redemption requests qualifying for being processed on the next business day. Such procedure would continue until the outstanding redemption requests come down to a level below ten percent of the units then in issue.

The liquidity position of the Fund is monitored by Fund Manager and Risk and Compliance Department on daily basis.

The table below analyses the Fund's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts in the table are the contractual undiscounted cash flows.

The maturity profile of the Fund's liabilities based on contractual maturities is given below:

	30 June 2013			Total
	Up to three months	More than three months and up to one year	More than one year	
----- (Rupees in '000) -----				
Payable to Management Company	1,152	-	-	1,152
Payable to Central Depository of Pakistan Limited - Trustee	59	-	-	59
Payable to Securities and Exchange Commission of Pakistan	233			233
Fairvalue of derivative liability	243			243
Accrued and other liabilities	1,113	-	-	1,113
	2,800	-	-	2,800
	30 June 2012			
	Up to three months	More than three months and up to one year	More than one year	Total
----- (Rupees in '000) -----				
Payable to Management Company	146	-	-	146
Payable to Central Depository of Pakistan Limited - Trustee	59	-	-	59
Payable to Securities and Exchange Commission of Pakistan	250			250
Accrued and other liabilities	872	-	-	872
	1,327	-	-	1,327

Units of the Fund are redeemable on demand at the holder's option, however, the Fund does not anticipate significant redemption of units.

#### 18.4 Financial instruments by category

As at 30 June 2013, all the financial assets are carried on the Statement of Assets and Liabilities are categorised either as 'loans and receivables' or financial assets 'at fair value through profit or loss'. All the financial liabilities carried on the Statement of Assets and Liabilities are categorised as other financial liabilities i.e. liabilities other than 'at fair value through profit or loss'.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
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As at 30 June 2013			
	Loans and receivables	Assets at fair value through profit or loss	Total
-----Rupees in '000-----			
<b>Assets</b>			
Balances with banks	68,364	-	68,364
Investments	-	340,218	340,218
Dividend and profit receivables	3,687	-	3,687
Receivable against sale of investments	10,128	-	10,128
Receivable from National Clearing Company of Pakistan Limited	12,764	-	12,764
Security deposits	4,284	-	4,284
	99,227	340,218	439,445
-----Rupees in '000-----			
	Liabilities at fair value through profit or loss	Other financial liabilities	Total
<b>Liabilities</b>			
Payable to the Management Company	-	1,152	1,152
Payable to Central Depository of Pakistan Limited - Trustee	-	59	59
Fair value of derivative liability	-	243	243
Accrued and other liabilities	-	1,113	1,113
	-	2,567	2,567
-----Rupees in '000-----			
As at 30 June 2012			
	Loans and receivables	Assets at fair value through profit or loss	Total
-----Rupees in '000-----			
<b>Assets</b>			
Balances with banks	22,560	-	22,560
Investments	-	74,402	74,402
Dividend and profit receivables	1,203	-	1,203
Receivable against sale of investments	173	-	173
Receivable from National Clearing Company of Pakistan Limited	961	-	961
Security deposits	4,100	-	4,100
	28,997	74,402	103,399
-----Rupees in '000-----			
	Liabilities at fair value through profit or loss	Other financial liabilities	Total
<b>Liabilities</b>			
Payable to the Management Company	-	146	146
Payable to Central Depository of Pakistan Limited - Trustee	-	59	59
Fair value of derivative liability	-	-	-
Accrued and other liabilities	-	872	872
	-	1,077	1,077
-----Rupees in '000-----			

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

### 18.5 Unit holders' fund risk management

The Fund's capital is represented by redeemable units. The Fund is required by the NBFC Regulations, 2008, to maintain minimum fund size to Rs. 100 million to be maintained all the time during the life of the scheme. The units issued by the Fund provides an investor with the right to require redemption for cash at a value proportionate to the unit holder's share in the Fund's net assets at the redemption date.

The Fund's objective in managing the unit holders' fund is to ensure a stable base to maximise returns to all investors and to manage liquidity risk arising from redemption. In accordance with the risk management policies, the Fund endeavours to invest the subscriptions received in appropriate investments while maintaining sufficient liquidity to meet redemption, such liquidity being augmented by disposal of investments.

### 19. FAIR VALUE OF FINANCIAL INSTRUMENTS

Investments on the Statement of Assets and Liabilities are carried at fair value. The Management Company is of the view that the fair value of the remaining financial assets and liabilities are not significantly different from their carrying values since assets and liabilities are essentially short term in nature.

The Fund measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: Quoted market price (unadjusted) in an active market for an identical instrument
- Level 2: Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: Valuation techniques using significant unobservable inputs.

**30 June 2013**

**Level 1      Level 2**  
**(Rupees in '000)**

**'At fair value through profit or loss'**

*Held for trading*

- Quoted equity securities	173,961	-
- Term finance certificates- Listed	-	35,219
- Term finance certificates- Unlisted		-
- Government securities		131,038

30 June 2012

'At fair value through profit or loss'

*Held for trading*

- Quoted equity securities	18,462	-
- Term finance certificates- Listed	-	36,350
- Term finance certificates- Unlisted	-	4,977
- Government securities	-	14,613

### 20. SUPPLEMENTARY NON FINANCIAL INFORMATION

The information regarding pattern of unit holding, list of top ten brokers, meetings of the Board of Directors of the management company and members of the Investment Committee are as follows:

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
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**20.1 Pattern of unit holding**

**Details of pattern of unit holding as at 30 June 2013**

	As at 30 June 2013		
	Number of unit holders	Investment Amount (Rupees in '000)	Percentage Investment
Individuals	1,136	175,120	40.47%
Associated companies / Directors	2	100,226	23.16%
Insurance companies	1	10,451	2.42%
Retirement funds	18	133,651	30.89%
Others	4	13,232	3.06%
	<b>1,161</b>	<b>432,680</b>	<b>100.00%</b>

**Details of pattern of unit holding as at 30 June 2012**

	As at 30 June 2012		
	Number of unit holders	Investment Amount (Rupees in '000)	Percentage Investment
Individuals	1,098	60,786	60.54%
Insurance companies	1	1,575	1.57%
Retirement funds	7	37,348	37.20%
Others	2	695	0.69%
	<b>1,108</b>	<b>100,404</b>	<b>100.00%</b>

**20.2 Top ten brokers / dealers by percentage of commission paid**

Details of commission paid by the fund to top ten brokers by percentage during the year are as follows:

	<b>2013 Percentage</b>
1 Invest and Finance Securities Limited	<b>18.55%</b>
2 Fortune Securities Limited	<b>9.27%</b>
3 Adam Securities (Private) Limited	<b>6.63%</b>
4 Arif Habib Limited	<b>6.53%</b>
5 Foundation Securities (Private) Limited	<b>6.13%</b>
6 Optimus Capital Management (Private) Limited	<b>6.08%</b>
7 JS Global Capital Limited	<b>6.00%</b>
8 KASB Securities Limited	<b>5.17%</b>
9 First Capital Equities Limited	<b>3.74%</b>
10 Elixir Securities Pakistan (Private) Limited	<b>3.62%</b>

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
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	2012 Percentage
1 Invest and Finance Securities Limited	10.60%
2 Fortune Securities Limited	9.80%
3 Arif Habib Limited	8.20%
4 KASB Securities Limited	7.40%
5 Foundation Securities (Private) Limited	5.80%
6 Taurus Securities Pakistan (Private) Limited	4.56%
7 BMA Capital Management Company Limited	4.50%
8 Elixir Securities Pakistan (Private) Limited	4.10%
9 Invisor Securities (Private) Limited	4.01%
10 Optimus Capital Management (Private) Limited	4.00%

**20.3 Attendance at meetings of the Board of Directors**

The 98th, 99th, 100th, 101st, 102nd, 103rd Board meetings were held on 16 July 2012, 15 August 2012, 4 October 2012, 24 October 2012, 4 February 2013 and 24 April 2013, respectively

Information in respect of attendance by Directors in the meetings is given below:

Name of Director	Number of meetings			Meeting not
	Held	Attended	Leave	
Mr. Mian Mohammad Mansha	6	2	4	98th, 99th, 100th, and 103rd
Mr. Nasim Beg	6	5	1	102nd
Mr. Yasir Qadri (Chief Executive Officer)	6	6	-	
Dr. Syed Salman Ali Shah	6	5	1	103rd
Mr. Haroun Rashid	6	4	2	100th and 101st
Mr. Ahmed Jahangir	6	6	-	
Mr. Samad A. Habib	6	4	2	98th and 100th
Mr. Mirza Mehmood Ahmed	6	3	3	98th, 99th and 101st
Mr. M. Saqib Saleem (Chief Operating Officer & Company Secretary)	6	6	-	
Mr. Umair Ahmed (Chief Financial Officer) *	6	3	-	

\* Mr. Umair Ahmed has been appointed as Chief Financial Officer on 1 January 2013.



# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

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## 20.4 Particulars of investment committee and fund manager

Details of members of investment committee of the Fund are as follows:

Name	Designation	Qualification	Experience in years
Mr. Yasir Qadri	Chief Executive Officer	MBA	18
Mr. Kashif Rafi	Senior Vice President - Investments	MBA & CFA level I	12
Mr. Muhammad Asim	Vice President - Head of Equities	MBA & CFA	10
Mr. Mohsin Pervez	Vice President - Investments	MBA & CFA level I	12
Mrs Uzma Khan	Assistant Vice President-Senior Research Analyst	MBA & CFA	8

## 20.5 Other funds managed by the fund manager

### *Mr. Muhammad Asim*

Mr. Muhammad Asim is the Manager of the Fund as at year end. He has obtained a Masters degree in Business Administration and is a Certified Financial Analyst. Other funds being managed by him are as follows:

- MCB Dynamic Stock Fund
- Pakistan Premier Fund
- Pakistan Pension Fund

## 21. DISTRIBUTIONS BY THE FUND

### 21.1 Non-adjusting event after the reporting date

The Board of Directors of the management company has approved final distribution of Rs. 12.9135 per unit for the year ended 30 June 2013 amounting to Rs. 66.296 million in their meeting held on 4 July 2013. These financial statements do not include the effect of the above final distribution that will be accounted for subsequent to the year end.

## 22. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue by the Board of Directors of the Management Company on 05 August 2013.

  
\_\_\_\_\_  
Chief Executive Officer

MCB-Arif Habib Savings and Investments Limited  
(formerly: Arif Habib Investments Limited)  
(Management Company)

  
\_\_\_\_\_  
Director

**PATTERN OF HOLDING AS PER REQUIREMENT OF CODE OF CORPORATE GOVERNANCE  
FOR THE YEAR ENDED JUNE 30, 2013**

Category	No.of Unit Holders	Units
<b>Associated Companies, undertakings and related Parties</b>		
MCB-ARIF HABIB SAVINGS AND INVESTMENTS LIMITED	1	1,166,918
D.G. KHAN CEMENT COMPANY LTD EMPLOYEES PROVIDENT FUND TRU	1	22,285
<b>Directors</b>		
Nasim Beg		
<b>Public Sector Companies and Corporations</b>	4	157,000
<b>Banks, Development Finance Institutions, Non-Banking Finance Institutions, Insurance, Insurance Companies, Modarbas and Mutual Funds.</b>		
	1	124,003
<b>Individuals</b>	1,136	2,077,822
<b>Trust</b>	16	989,973
<b>Unitholders holding 5 percent or more Voting interest in the listed company</b>		
CLARIANT PAKISTAN LIMITED EMPLOYEES GRATUITY FUND	1	305,177
TRUSTEE PAKISTAN SERVICES LTD (EMPLOYEES PROVIDENT FUND)	1	290,647
	<u>1,161</u>	<u>5,133,825</u>

**PATTERN OF UNIT HOLDING BY SIZE  
FOR THE YEAR ENDED JUNE 30, 2013**

No. of Unit Holders	Units Holdings	Total Units Held
1,037	(SHAREHOLDING FROM 1.0000 TO 5000.0000)	488,660.99
53	(SHAREHOLDING FROM 5001.0000 TO 10000.0000)	363,486.29
34	(SHAREHOLDING FROM 10001.0000 TO 15000.0000)	415,449.93
4	(SHAREHOLDING FROM 15001.0000 TO 20000.0000)	65,935.66
6	(SHAREHOLDING FROM 20001.0000 TO 25000.0000)	140,133.29
1	(SHAREHOLDING FROM 25001.0000 TO 30000.0000)	25,061.29
3	(SHAREHOLDING FROM 30001.0000 TO 35000.0000)	94,673.53
3	(SHAREHOLDING FROM 35001.0000 TO 40000.0000)	111,388.59
1	(SHAREHOLDING FROM 40001.0000 TO 45000.0000)	41,307.95
1	(SHAREHOLDING FROM 45001.0000 TO 50000.0000)	47,157.00
1	(SHAREHOLDING FROM 50001.0000 TO 55000.0000)	52,355.27
4	(SHAREHOLDING FROM 60001.0000 TO 65000.0000)	246,581.57
1	(SHAREHOLDING FROM 70001.0000 TO 75000.0000)	72,661.75
1	(SHAREHOLDING FROM 75001.0000 TO 80000.0000)	77,536.21
1	(SHAREHOLDING FROM 115001.0000 TO 120000.0000)	118,932.09
2	(SHAREHOLDING FROM 120001.0000 TO 125000.0000)	246,595.74
1	(SHAREHOLDING FROM 125001.0000 TO 130000.0000)	129,911.38
2	(SHAREHOLDING FROM 145001.0000 TO 150000.0000)	292,093.42
1	(SHAREHOLDING FROM 160001.0000 TO 165000.0000)	162,762.33
1	(SHAREHOLDING FROM 175001.0000 TO 180000.0000)	178,398.13
1	(SHAREHOLDING FROM 290001.0000 TO 295000.0000)	290,647.02
1	(SHAREHOLDING FROM 305001.0000 TO 310000.0000)	305,176.90
1	(SHAREHOLDING FROM 1165001.0000 TO 1170000.0000)	1,166,918.48
1,161	Total :	5,133,824.81

## PERFORMANCE TABLE

Performance Information	2013	2012	2011	2010	2009	2008
Total Net Assets Value – Rs. in million	432.68	104.40	333.00	403.04	714.089	1,689.89
Net Assets value per unit – Rupees	84.28	70.69	69.84	78.23	67.02	87.65
Highest offer price per unit	88.46	78.62	83.63	87.47	90.16	105.99
Lowest offer price per unit	73.10	68.11	68.81	69.09	54.42	87.2
Highest Redemption price per unit	84.89	76.33	82.37	84.85	87.46	102.81
Lowest Redemption price per unit	70.91	66.12	67.78	67.02	52.79	84.58
Distribution per unit *(annual) – Rs.	12.91	5.21	12.50	10.089	-	-
Net Assets Value before distribution	84.28	76.18	82.26	78.23	N/a	N/a
Net Assets Value after distribution	71.37	70.97	69.76	68.14	N/a	N/a
<b>Average Annual Return - %</b>						
One year	19.2%	8.70	20.86	16.7	-23.5	-12.35
Two year (inception date Mar 11, 2008)	14.8%	15.70	41.07	-10.8	-33	N/a
Three year	18.9%	17.80	7.87	-21.8	N/a	N/a
Net Income / (loss) for the period – Rs. in million	69.78	8.12	58.66	57.73	-219.77	-238.15
Income Distribution – Rs. in million	66.30	6.91	50.56	51.981	-	-
Accumulated Capital Growth – Rs. in million	3.48	1.21	5.75	-	-	-

### Disclaimer

The past performance is not necessarily indicative of future performance and unit prices and investments and returns may go down, as well as up.

\*Please refer to note 21

Please find us on



by typing: **Bachat Ka Doosra Naam**

**MCB-Arif Habib Savings and Investments Limited**  
*(formerly: Arif Habib Investments Limited)*

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