# PAKISTAN STRATEGIC ALLOCATION FUND
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# PAKISTAN STRATEGIC ALLOCATION FUND
# FUND'S INFORMATION

| | | |
|---|---|---|
| **Management Company** | Arif Habib Investments Limited<br>8th Floor, Techno City, Corporate Tower,<br>Hasrat Mohani Road, Karachi | |
| **Board of Directors of the Management Company** | Mian Mohammad Mansha | Chairman(subject to the approval of SECP) |
| | Mr. Nasim Beg | Executive Vice Chairman |
| | Mr. Yasir Qadri | Chief Executive (subject to the approval of SECP) |
| | Syed Salman Ali Shah | Director (subject to the approval of SECP) |
| | Mr. Haroun Rashid | Director (subject to the approval of SECP) |
| | Mr. Ahmed Jahangir | Director (subject to the approval of SECP) |
| | Mr. Samad A. Habib | Director |
| | Mr. Mirza Mahmood Ahmad | Director (subject to the approval of SECP) |
| **Company Secretary & CFO of the Management Company** | Mr. Muhammad Saqib Saleem | |
| **Audit Committee** | Mr. Nasim Beg<br>Mr. Haroun Rashid<br>Mr. Samad A. Habib<br>Mr. Ali Munir | |
| **Trustee** | Central Depository Company of Pakistan Limited<br>CDC House, 990B, Block 'B', S.M.C.H.S,<br>Main Shahrah-e-Faisal, Karachi-74400 | |
| **Bankers** | Bank AL Habib Limited<br>Bank Alfalah Limited<br>Habib Metropolitan Bank Limited<br>Standard Chartered Bank (Pakistan) Limited | |
| **Auditors** | Yousuf Adil Saleem & Co.<br>Chartered Accountants<br>Cavish Court, A-35, Block 7 & 8,<br>KCHSU, Shahrah-e-Faisal, Karachi. | |
| **Legal Advisor** | Bawaney & Partners<br>404, 4th Floor, Beaumont Plaza,<br>Beaumont Road, Civil Lines, Karachi-75530 | |
| **Registrar** | Gangjees Registrar Services (Pvt.) Limited.<br>Room No. 516, 5th Floor, Clifton Centre,<br>Kehkashan, Clifton, Karachi. | |
| **Rating** | PACRA: AM2 (Positive Outlook) - Management Quality Rating assigned to Management Company | |

# PAKISTAN STRATEGIC ALLOCATION FUND
# REPORT OF THE DIRECTOR OF THE MANAGEMENT COMPANY
# FOR THE YEAR ENDED JUNE 30, 2011

The Board of Directors of Arif Habib Investment Limited, the Management Company of Pakistan Strategic Allocation Fund (PSAF), is pleased to present the Annual Report on the affairs of PSAF for the year ending 30th June, 2011.

## Equities Market Overview

Equities recorded second consecutive year of stellar performance with the KSE-100 index rising by about 29% in FY11 on top of 36% return posted in FY10. Pakistan equity market also remained the 3rd best performing market in the region after Indonesia and Thailand which posted 33% and 31% returns respectively.

KSE -100 Index made the fresh start with 76 points plus at 9,740 on its 1st day and closed the first month in same zeal at +8.2%. However the momentum halted abruptly as severe floods hit across provinces causing substantial damages and losses. Economic gloom pulled the index in the negative territory making a low of 9,488 on August 17, 2010. However persistent foreign inflow amounting to USD 105 m in the first quarter, turned the sentiment at KSE positive and second quarter proved to be the best performing period of the year and about 74% of the total annual performance could be attributed to this period. With the exception of initial period, market remained lackluster during most part of the 2nd half of the year where major dampeners included the political unrest in MENA region and highly volatile US-Pak diplomatic relationship. KSE-100 index closed the year at 12,496, down 2.1% from its year high of 12,768 made on Jan 17, 2011;overall 29% up YoY.

While returns remained impressive, volumes were unprecedentedly low. In its first year, post imposition of CGT, retail investors remained largely inactive as foreign investors and local institutions including Banks, Corporates and Mutual Funds demonstrated marginal interest. During the year, average daily turnover declined significantly to about 95 million shares, down 40% on YoY basis. KSE Management attempted to enthuse the market by introducing leverage products including Margin Trading System and Market Financing System and made few modifications in futures market, but to no avail.

Macro-economic factors challenging the KSE performance included strong detriments like capital gains tax, a cumulative 150 basis points increase in discount rate in an already high interest rate environment, economic loss due to floods and higher Oil prices and lower foreign flows. Some of the positives that propelled KSE in positive territory included strong external account position on the back of increased textile exports, flood-related foreign aids, coalition support fund and record-high remittances ultimately translating in a relatively stable exchange rate and record FX reserves. Moreover, strong liquidity from booming rural economy and persistent foreign interest in domestic equities, which continued to trade at a discount of around 35~40% despite strong dividend yield (near 7%)and corporate earnings growth (+20% YoY) helped the market to exhibit strong performance.

Sector wise, Food Producers, Metals and Mining, Beverages and Chemicals outperformed the KSE-100 index while the major sectors and index heavy weights including Banks and Oil & Gas Sectors remained among the underperformers while best performing stocks included Nestle, FFC, FFBL, POL and LOTPTA.

## Future Outlook

We believe that the global economic environment would remain jittery in the near term, which could provide further hiccups to the international as well as local equity markets. An unexpected 50 bps DR cut by the SBP during the early part of FY12 bodes well for the market, however, a ballooning fiscal deficit would continue to 'crowd out' domestic capital markets. Strong earnings growth, sizeable discount to regional markets, high dividend yields and relatively cheaper PE valuations warrant decent returns for long term investors in our view.

## Fund's Performance

The investment objective of the fund is to provide investors capital growth over medium to long term primarily from investment in more liquid Pakistani equities. The fund invests primarily in equities based on a quantitative model. The fund takes advantage of equity market volatility and buys equities when they are underpriced and sells equities when they are overpriced.

During the period under review, the fund generated a return of 19.1% as against its benchmark return of 28.5%. Net assets of the fund, on the other hand, that were Rs. 2.53 billion at the beginning of the period declined significantly to around Rs. 0.6 billion by year-end mainly due to sizeable redemptions post fund's conversion into open-ended scheme. Before the conversion into open-end scheme, the fund had sizeable exposure in illiquid stocks, which were difficult to sell in a low-volume market and hence had a higher impact cost resulting in fund's under-performance.

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

| Performance Information (%) | PSAF | Benchmark |
|---|---|---|
| Last twelve Months Return | 19.1% | 28.5% |
| Since Inception | 104.1% | 134.9% |

During the year your fund earned net income of Rs 114.294 million. The Board in the meeting held on July 04, 2011 has declared final distribution amounting to Rs. 28.253 million (i.e. Rs. 0.4035 per unit).

During the period, units worth Rs.6.683 million were issued and units with a value of Rs. 1,886.685 million were redeemed. Further, 300,000,000 units were issued against 300,000,000 certificates of Pakistan Strategic Allocation Fund as per scheme of arrangement for conversion closed-end scheme into open-end scheme. As on 30 June 2011 the NAV of the Fund was Rs. 8.69 per unit.

# PAKISTAN STRATEGIC ALLOCATION FUND
# REPORT OF THE DIRECTOR OF THE MANAGEMENT COMPANY
# FOR THE YEAR ENDED JUNE 30, 2011

**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.

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 view of the afore mentioned developments, the Management Company firmly believes that there is no compelling reason to make provision on account of WWF contribution in the financial statements. Further, the Management Company also expects that the constitutional petition pending in the Honourable High Court of Sindh on the subject as referred above will be decided in favour of the Mutual Funds. However the auditor f the Fund because of pending adjudication of the Constitutional petition in Honourable SIndh High Court and included a emphasis of matter paragraph in auditor' report highlighting the said issue.

The aggregate unrecognised amount of WWF as at June 30, 2011 amounted to Rs. 9.975 million.

**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 Karachi 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.

**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 the 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.

# PAKISTAN STRATEGIC ALLOCATION FUND
# REPORT OF THE DIRECTOR OF THE MANAGEMENT COMPANY
# FOR THE YEAR ENDED JUNE 30, 2011

**l.** As per note 1.1 of financial statements, MCB Asset Management Company Limited merged with and into Arif Habib Investments Limited on June 27, 2011. Statement showing attendance of Board meetings is as under:

**Attendance of Board Meeting**
**from 1st July 2010 to 30th June 2011.**

| S.# | Name of persons attending the meetings | Designation | Number of Meetings | | | |
|---|---|---|---|---|---|---|
| | | | No. of Meeting Held | Attendance Required | Attended | Leave Granted |
| 1. | Mr. Shafi Malik * | Former Chairman | 15 | 15 | 15 | - |
| 2. | Mr. Nasim Beg ** | E. Vice Chairman | 15 | 15 | 15 | - |
| 3. | Mr. Muhammad Akmal Jameel * | Former Director | 15 | 15 | 15 | - |
| 4. | Mr. Muhammad Kashif * | Former Director | 15 | 11 | 15 | 4 |
| 5. | Syed Ajaz Ahmed * | Former Director | 15 | 13 | 15 | 2 |
| 6. | Mr. Sirajuddin Cassim * | Former Director | 15 | 4 | 15 | 11 |
| 7. | Mr. S. Gulrez Yazdani * | Former Director | 15 | 13 | 15 | 2 |
| 8. | Mr. Samad A. Habib *** | Director | 15 | 5 | 5 | - |
| 9. | Mian Mohammad Mansha **** | Chairman | 15 | 1 | 1 | - |
| 10. | Mr. Yasir Qadri **** | Chief Executive | 15 | 1 | 1 | - |
| 11. | Syed Salman Ali Shah **** | Director | 15 | 1 | 1 | - |
| 12. | Mr. Haroun Rashid **** | Director | 15 | 1 | 1 | - |
| 13. | Mr. Ahmed Jahangir **** | Director | 15 | 1 | 1 | - |
| 14. | Mr. Mirza Mahmood Ahmad **** | Director | 15 | 1 | 1 | - |

* Resigned on 27th June, 2011
** Mr. Nasim Beg resigned as Chief Executive on 27th June, 2011 and appointed as Executive Vice Chairman on the same date.
*** Mr. Samad A. Habib was elected as director on 7th February, 2011 and his appointment approved by SECP on 31st March, 2011.
****Appointed on 27th June, 2011 and their approval of appointment from SECP is awaited.

**m.** During the period under review following trades in the units of the fund were carried out by the Directors, CEO, CFO/Company Secretary and their spouses and minor children, including those disclosed in note # 19 to the financial statements:

**External Auditors**

The fund's external auditors, M. Yousuf Adil Saleem & Co., Chartered Accountants, have expressed their willingness to continue as the fund auditors for the ensuing year ending June 30, 2012. The audit committee of the Board has recommended reappointment of M. Yousuf Adil Saleem & Co., Chartered Accountant as auditors of the fund for the year ending June 30, 2012.

**Acknowledgement**

The Board of Directors of the Management Company is thankful to the valued investors of the Fund for their reliance and trust in 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 Karachi 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: September 20, 2011**

# PAKISTAN STRATEGIC ALLOCATION FUND
# REPORT OF THE FUND MANAGER
# FOR THE YEAR ENDED JUNE 30, 2011

**Fund Type and Category**

Pakistan Strategic Allocation Fund is an Open-End Equity Scheme

**Fund Benchmark**

The benchmark for PSAF is KSE100 Index

**Investment Objective**

The objective of the fund is to provide investors capital growth over medium to long term primarily from investment in more liquid Pakistani equities

**Investment Strategy**

Pakistan Strategic Allocation Fund (PSAF) is an open end strategic allocation fund which primarily invests in equities based on a quantitative model. The Fund takes advantage of equity market volatility and buys equities when they are underpriced and sells equities when they are overpriced. DCF (discounted cash flow) valuations are pivotal for stocks selection in the portfolio. The fund is
mostly invested in liquid stocks. Under the NBFC Rules, it is only allowed to borrow up to 15% of net assets for up to 90 days to meet redemption needs.

**Manager's Review**

PSAF delivered 19.1% return vis-à-vis KSE100 return of 28.5% in FY11. Net assets of the fund which were Rs 2.53bn at the beginning of the period were reduced by almost 76% to Rs 0.608 bn. Average equity allocation of the fund comes out to be around 74% for the year. Main reason behind this huge depletion in fund's net assets and low average allocation is that PSAF was converted from closed end scheme to open end scheme during the year and most investors preferred to materialize capital gains occurred due to market price and NAV differential of the fund.

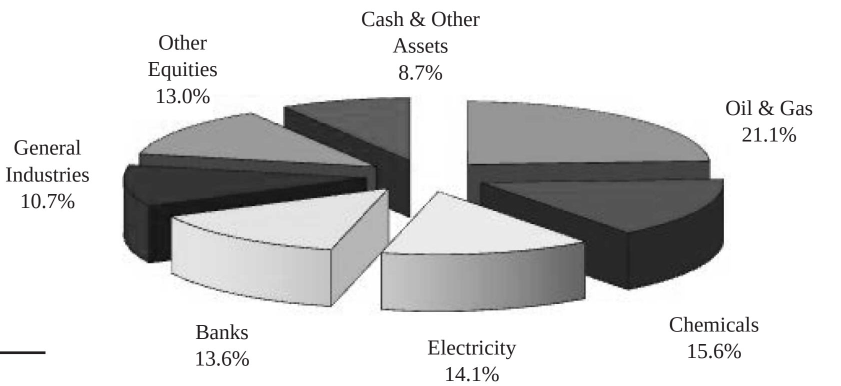
Anticipating heavy redemptions after conversion fund manager started reducing equities from August 2010 and brought down equity allocation from June 2010 allocation of 75.2% to 36% in October 2010 and protected investor's value by reducing impact cost through slow reduction in a low market volume regime. Equity allocation automatically improved to around 79.26% after major redemption run. Equity allocation was further improved as fund size stabilized and fund manager took new positions.

During the year fund liquidated its positions in BAHL, KTML, REWM, WTCL, PAEL, PAKT, SEARL, FFC and ICT. Fund took new position in LUCK, PTC, UBL, FATIMA and NBP during the period. Later exposures of various holdings were adjusted considering varying market conditions and changing risk profiles of companies and sectors.

Substantial portion of the portfolio remained concentrated in Oil and Gas and Chemicals sectors during the year which performed well while exposure in Banks was increased towards the end of the period. Out of the major holdings FFC, POL, FFBL, PPL, FATIMA and ICI outperformed the benchmark KSE100 while ABL, HUBC, NML, UBL, LUCK, ENGRO, PSO, KAPCO and PKGS underperformed the Index. Underperformance of the fund is mainly attributed to PKGS, ENGRO, ABL, HUBC, KAPCO, NML, ABL and PSO in which fund has major investments and which could not perform up to the mark. Another reason for large underperformance was that fund had very low equity exposure for several months due to conversion factor.

PSAF's portfolio mostly consists of fundamentally strong profitable companies which have good earnings growth prospects in future. Moreover we are in process of realigning portfolio to the new economic and market realities and considering some operational changes in the working model of PSAF. Although dependent on market conditions, we are confident to deliver better performance in future on the back of strategic changes we are making in the portfolio.

**Asset Allocation as on June 30, 2011 (% of total assets)**




**Mr. Mohsin Pervaiz**
**Fund Manager**

**Karachi: September 20, 2011**

# PAKISTAN STRATEGIC ALLOCATION FUND
# TRUSTEE REPORT TO THE UNIT HOLDERS
# FOR THE YEAR ENDED JUNE 30, 2011

**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**

The Pakistan Strategic Allocation Fund (the Fund), an open-end fund, was initially constituted as a closed-end fund under a trust deed dated May 26, 2004, executed between Arif Habib Investments Limited, as the Management Company and Central Depository Company of Pakistan Limited, as the Trustee. Subsequently, through a supplemental trust deed dated October 06, 2010, the Fund was converted into open-end fund.

In our opinion, the Management Company has in all material respects managed the Fund during the year ended June 30, 2011 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 (NBFC Regulations) and the constitutive documents of the Fund.

We would like to draw unit holders attention towards the compliance of Regulation 63 of the NBFC Regulations which requires all Fund's to distribute by way of dividend not less then ninety percent of its accounting income received or derived from sources other than unrealized capital gain as reduced by such expenses as are chargeable to Fund's under NBFC Regulations. However, the Fund has not complied with the said requirement.

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

**Karachi: October 26, 2011**

# PAKISTAN STRATEGIC ALLOCATION FUND
# STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE FOR THE YEAR ENDED JUNE 30, 2011

This statement is being presented by the Board of Directors of Arif Habib Investments Limited ("the Management Company"), the Management Company of **Pakistan Strategic Allocation Fund** ("the Fund") to comply with the Code of Corporate Governance contained in Listing Regulations of Karachi 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.

The Management Company 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 three independent non-executive directors out of a total strength of eight directors.

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 resident 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 NBFI or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.

4. During the year Mr. Muhammad Shafi Malik, Mr. Sirajuddin Cassim, Mr. Muhammad Akmal Jameel, Mr. Muhammad Kashif, Mr. S. Gulrez Yazdani and Syed Ajaz Ahmed had resigned and were replaced by Mian Mohammad Mansha, Mr. Haroun Rasheed, Mr. Ahmed Jahangir, Mr. Yasir Qadri, Dr. Salman Shah and Mr. Mirza Mehmood Ahmad, respectively, as directors of the Management Company, on the same day due to merger as fully explained in note 1.1 to the financial statements.

5. The Management Company has prepared a 'Statement of Ethics and Business Practices', which has been approved by the Board of Directors and signed by all the directors and employees of the Management Company.

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 (CE) has been taken by the Board. As on June 30, 2011, there are no other executive directors of the Management Company besides the Executive Vice Chairman and Chief Executive.

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, except for emergency meeting for which written notice of less than seven days was served. The minutes of the meetings were appropriately recorded and circulated and signed by the Chairman of the Board of Directors.

9. The related party transactions have been placed before the audit committee and approved by the Board of Directors with necessary justification for non arm's length transactions and pricing methods for transactions that were made on terms equivalent to those that prevail in the arm's length transactions only if such terms can be substantiated.

10. The Company has planned to conduct an orientation course for its directors, in the near future to appraise them of their duties and responsibilities.

11. The Board has approved appointment, remuneration and terms and conditions of the employment of Chief Financial Officer and Company Secretary and Head of Internal Audit, as determined by the Chief Executive.

12. The Directors' Report of the Fund for this year has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.

13. The Directors, CE 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 financial statements of the Fund were duly endorsed by CEO and CFO of the Management Company before approval of the Board.

15. The Management Company has complied with all the corporate and financial reporting requirements of the Code.

16. The Board has formed an audit committee for the Management Company. It comprises of four members, out of which two are non-executive directors.

17. 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.

18. The Company has an effective internal audit function which was headed by the Head of Internal Audit who resigned on amalgamation. The staff is considered to be suitably qualified and experienced for the purpose and is conversant with the policies and procedures of the Company and is involved in the internal audit function on a full time basis.

# PAKISTAN STRATEGIC ALLOCATION FUND
# STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE
# FOR THE YEAR ENDED JUNE 30, 2011

20. 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, that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Company and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by Institute of Chartered Accountants of Pakistan.

21. 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 IFAC guidelines in this regard.

22. We confirm that all other material principles contained in the Code have been complied with.

**On behalf of the board**

**Yasir Qadri**
**Chief Executive**

**Karachi: September 20, 2011**

# PAKISTAN STRATEGIC ALLOCATION FUND
# REVIEW REPORT TO THE UNIT HOLDERS ON THE STATEMENT OF COMPLIANCE WITH THE BEST PRACTICES OF THE CODE OF CORPORATE GOVERNANCE FOR THE YEAR ENDED JUNE 30, 2011

We have reviewed the statement of compliance with the best practices contained in the Code of Corporate Governance prepared by the Board of Directors of Arif Habib Investments Limited (the Management Company) of the Pakistan Strategic Allocation Fund (the Fund) to comply with the Listing Regulation (chapter xi) of the Karachi Stock Exchange, 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 have not carried out any special review of the internal control system to enable us to express an opinion as to whether the Board's statement on internal control covers all controls and the effectiveness of such internal controls.

Further, Sub-Regulation (xii a) of the above mentioned Listing Regulation requires the Management Company to place before the Board of Directors for their consideration and approval related party transaction distinguishing between transaction carried out on term equivalent to those that prevail 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. All such transaction are also required to be separately placed before the Audit Committee. We are only required and have ensured compliance of the requirement to the extent of approval of related party transactions by the Board of Directors and placement of such transaction before the Audit Committee. We have not carried out any procedures to determine whether the related party transactions were undertaken at arm's length prices 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 Management Company's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance, as applicable to the Fund for the year ended June 30, 2011.

**M. Yousuf Adil Saleem & Co.**
**Chartered Accountants**

**Date: September 20, 2011**
**Karachi**

# PAKISTAN STRATEGIC ALLOCATION FUND
# INDEPENDENT AUDITORS' REPORT TO THE UNIT HOLDERS
# FOR THE YEAR ENDED JUNE 30, 2011

We have audited the accompanying financial statements of Pakistan Strategic Allocation Fund (the Fund), which comprises the statement of assets and liabilities as at June 30, 2011, and the income statement, distribution statement, statement of movements in unit holder's fund, cash flow statement and a summary of significant accounting policies together with other explanatory notes.

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

Management Company of the Fund is responsible for the preparation and fair presentation of these financial statements in accordance with the requirement of the approved accounting standards as applicable in Pakistan. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

**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 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 auditor's 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 state of the Fund's affairs as at June 30, 2011 and of its financial performance, cash flows and transactions for the year then ended in accordance with approved accounting standards as applicable in Pakistan.

**Other matters**

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

The financial statements for the year ended June 30, 2010 were audited by another firm of Chartered Accountants whose report dated August 03, 2010 contained a qualified opinion, on the basis of not recording provision against Workers' Welfare Fund, as elaborated below.

**Emphasis of matter**

We draw attention to note 14.1 to the accompanying financial statements which refers to an uncertainty relating to the future outcome of the litigation regarding contribution to the Workers' Welfare Fund which is currently pending adjudication at the Honorable High Court of Sindh. Our opinion is not qualified in respect of this matter.

**M. Yousuf Adil Saleem & Co.**
**Chartered Accountants**

**Engagement Partner**
**Mushtaq Ali Hirani**

**Dated: September 20, 2011**
**Karachi**

# FINANCIAL STATEMENTS

# PAKISTAN STRATEGIC ALLOCATION FUND
# STATEMENT OF ASSETS AND LIABILITIES
# AS AT JUNE 30, 2011

| | Note | 2011 | 2010 |
|---|---|---|---|
| | | (Rupees in '000) | |
| **ASSETS** | | | |
| Balances with banks | 6 | **42,757** | 38,860 |
| Investments | 7 | **577,894** | 2,379,527 |
| Receivable against sale of investments | | **4,872** | 127,266 |
| Dividend and profit receivable | 8 | **4,073** | 2,197 |
| Advances, deposits and other receivables | 9 | **3,122** | 3,096 |
| **Total Assets** | | **632,718** | 2,550,946 |
| **LIABILITIES** | | | |
| Payable to Management Company | 10 | **1,124** | 4,228 |
| Payable to Central Depository Company of Pakistan Limited - Trustee | 11 | **113** | 231 |
| Payable to Securities and Exchange Commission of Pakistan | 12 | **1,485** | 2,477 |
| Unclaimed dividend | | **12,654** | 11,307 |
| Accrued expenses and other liabilities | 13 | **9,100** | 1,532 |
| **Total Liabilities** | | **24,476** | 19,775 |
| **NET ASSETS** | | **608,242** | 2,531,171 |
| **"Unit holders' fund ( as per statement attached) / Certificate Holders equity"** | | **608,242** | 2,531,171 |
| **CONTINGENCIES AND COMMITMENTS** | 14 | | |
| | | **(Number of units / certificites)** | |
| Number of units / certificates in issue | | **70,019,863** | 300,000,000 |
| | | **(Rupees)** | |
| Net assets value per unit/ certificate (Face Value per unit Rs 10/- each) | 5.14 | **8.69** | 8.44 |

The annexed notes 1 to 26 form an integral part of these financial statements.

**For Arif Habib Investments Limited**
**(Mangement Company)**

Chief Executive　　　　Director

# PAKISTAN STRATEGIC ALLOCATION FUND
# INCOME STATEMENT
# FOR THE YEAR ENDED JUNE 30, 2011

| | Note | 2011 | 2010 |
|---|---|---|---|
| | | (Rupees in '000) | |
| **Income** | | | |
| Capital gain on sale of investments - net | | **172,621** | 288,515 |
| Income from government securities | | **54,537** | 47,059 |
| Income from placements with financial institutions | | **616** | 6,015 |
| Income from term finance certificates | | **-** | 4,906 |
| Income from reverse repurchase transactions | | **-** | 3,227 |
| Dividend income | | **82,867** | 119,414 |
| Profit on bank deposits | | **8,144** | 16,183 |
| Other income | | **-** | 70 |
| | | **318,785** | 485,389 |
| Impairment loss on financial assets classified as 'available for sale' | 7.6 | **(1,972)** | (1,589) |
| Element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed | | **(225,425)** | - |
| Unrealised appreciation / (diminution) on revaluation of investments 'at fair value through profit or loss' - net | 7.5 | **72,803** | (29,777) |
| **Total income** | | **164,191** | 454,023 |
| **Operating expenses** | | | |
| Remuneration of the Management Company | 10 | **31,271** | 55,593 |
| Remuneration of Central Depository Company of Pakistan Limited - Trustee | 11 | **2,122** | 2,439 |
| Annual fee - Securities and Exchange Commission of Pakistan | 12 | **1,485** | 2,477 |
| Securities transaction cost | | **5,482** | 6,281 |
| Conversion cost | 13.1 | **7,600** | - |
| Custody, settlement and bank charges | | **612** | 1,031 |
| Fees and subscription | | **644** | 345 |
| Printing and related cost | | **298** | 289 |
| Auditors' remuneration | 15 | **383** | 384 |
| Amortisation of preliminary expenses and floatation costs | 5.17 | **-** | 731 |
| **Total operating expenses** | | **49,897** | 69,570 |
| **Net income for the year** | | **114,294** | 384,453 |
| Taxation | 5.16 | **-** | - |
| Net income after taxation | | **114,294** | 384,453 |
| **Other comprehensive income for the year** | | | |
| Unrealised (diminution) / appreciation in value of investments classified as 'available for sale' | 7.6 | **(36,626)** | 10,152 |
| **Total comprehensive income for the year** | | **77,668** | 394,605 |
| Earning per unit / certificate | 16 | **-** | 1.28 |

The annexed notes 1 to 26 form an integral part of these financial statements.

**For Arif Habib Investments Limited**
**(Mangement Company)**

Chief Executive Director

# PAKISTAN STRATEGIC ALLOCATION FUND
# DISTRIBUTION STATEMENT
# FOR THE YEAR ENDED JUNE 30, 2011

| | 2011 | 2010 |
|---|---|---|
| | (Rupees in '000) | |
| Accumulated loss brought forward | | |
| - Realised loss | **(307,473)** | (357,189) |
| - Unrealised loss | **(198,654)** | (533,391) |
| | **(506,127)** | (890,580) |
| Element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed | | |
| - amount representing unrealised capital gains / (losses) and capital gains / (losses) that forms part of the unit holders' fund transferred to distribution statement | **645,224** | - |
| Net income for the year | **114,294** | 384,453 |
| | **759,518** | 384,453 |
| Final cash dividend @ Rs. 1.1534 per certificate ( 2010: Nil) announced on August 3, 2010 | **(346,020)** | - |
| Accumulated loss carried forward | **(92,629)** | (506,127) |
| Represented by: | | |
| - Realised loss | **(132,219)** | (307,473) |
| - Unrealised gain / (loss) | **39,590** | (198,654) |
| | **(92,629)** | (506,127) |

The annexed notes 1 to 26 form an integral part of these financial statements.

**For Arif Habib Investments Limited**
**(Mangement Company)**

Chief Executive Director

# PAKISTAN STRATEGIC ALLOCATION FUND
# STATEMENT OF MOVEMENT IN UNIT HOLDERS' FUND
# FOR THE YEAR ENDED JUNE 30, 2011

| | 2011 | 2010 |
|---|---|---|
| | (Rupees in '000) | |
| Net assets at beginning of the year | **2,531,171** | 2,136,566 |
| Issue of 3,000,000,000 units at the time of conversion | **3,000,000** | - |
| Cancellation of 3,000,000,000 certificates at the time of conversion | **(3,000,000)** | - |
| | **-** | - |
| Amount received on issue of 806,844.54 units | **6,683** | - |
| Amount paid / payable on redemption of 230,786,981.99 units | **(1,886,685)** | - |
| | **(1,880,002)** | - |
| | **651,169** | 2,136,566 |
| **Element of (income) / loss and capital (gains) / losses included in prices of units issued less those in units redeemed :** | | |
| - amount representing accrued (income) / loss and capital (gains) / losses - transferred to income statement | **225,425** | - |
| - amount representing unrealised capital (gains) / losses and capital (gains) / losses that forms part of the unit holders' fund transferred to distribution statement | **(645,224)** | - |
| | **(419,799)** | - |
| Net income for the year transferred from the distribution statement | **759,518** | 384,453 |
| Unrealised (diminution) / appreciation in value of investment classified as 'available for sale' | **(36,626)** | 10,152 |
| Final cash dividend @ Rs. 1.1534 per certificate ( 2010: Nil) | **(346,020)** | - |
| Net assets at end of the year | **608,242** | 2,531,171 |
| Net assets value per unit / certificate (face value per unit / certificate is Rs. 10/-) | **8.69** | 8.44 |

The annexed notes 1 to 26 form an integral part of these financial statements.

**For Arif Habib Investments Limited**
**(Mangement Company)**

Chief Executive | Director

# PAKISTAN STRATEGIC ALLOCATION FUND
# STATEMENT OF CASH FLOWS
# FOR THE YEAR ENDED JUNE 30, 2011

| | 2011 | 2010 |
|---|---|---|
| | (Rupees in '000) | |
| **A. CASH FLOW FROM OPERATING ACTIVITIES** | | |
| Net income for the year | **114,294** | 384,453 |
| **Adjustments for:** | | |
| Amortisation of preliminary expenses and floatation costs | **-** | 731 |
| Impairment loss on financial assets classified as 'available for sale' | **1,972** | 1,589 |
| Element of loss and capital gains / (losses) included in prices of units issued less those in units redeemed | **225,425** | - |
| Unrealised (appreciation) / diminution in value of investments 'at fair value through profit or loss' - net | **(72,803)** | 29,777 |
| Dividend income | **(82,867)** | (119,414) |
| | **186,021** | 297,136 |
| **(Increase) / decrease in assets** | | |
| Receivable against sale of investments | **122,394** | (113,855) |
| Investments - net | **1,835,838** | (441,783) |
| Dividend and profit receivable | **1,849** | 7,149 |
| Advances, deposits and other receivables | **(26)** | (125) |
| | **1,960,055** | (548,614) |
| **Increase / (decrease) in liabilities** | | |
| Payable against purchase of investments | **-** | (15,139) |
| Payable to Management Company | **(3,104)** | (5,964) |
| Payable to Central Depository Company of Pakistan Limited - Trustee | **(118)** | 24 |
| Payable to Securities and Exchange Commission of Pakistan | **(992)** | 469 |
| Accrued expenses and other liabilities | **7,568** | 597 |
| | **3,354** | (20,013) |
| | **2,149,430** | (271,491) |
| Dividend received | **79,142** | 130,507 |
| **Net cash generated from / (used in) operating activities** | **2,228,572** | (140,984) |
| **B. CASH FLOW FROM FINANCING ACTIVITIES** | | |
| Cash received from units sold | **6,683** | - |
| Cash paid on units redeemed | **(1,886,685)** | - |
| Dividend paid | **(344,673)** | (2,077) |
| **Net cash used in financing activities** | **(2,224,675)** | (2,077) |
| **Net increase / (decrease) in cash and cash equivalent** | **3,897** | (143,061) |
| Cash and cash equivalent at beginning of the year | **38,860** | 181,921 |
| **Cash and cash equivalent at end of the year** | **42,757** | 38,860 |

The annexed notes 1 to 26 form an integral part of these financial statements.

**For Arif Habib Investments Limited**
**(Mangement Company)**

Chief Executive | Director

**1. LEGAL STATUS AND NATURE OF BUSINESS**

**1.1** Pakistan Strategic Allocation Fund (the Fund) was established under a Trust Deed executed between Arif Habib Investments Limited (AHIL) as Management Company and Central Depository Company of Pakistan Limited (CDC) as Trustee on May 26, 2004. The Management Company of the Fund obtained the requisite license from the Securities and Exchange Commission of Pakistan (SECP) to undertake asset management services under the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 (NBFC Rules). Based on shareholders' resolutions of MCB Asset Management Company Limited and Arif Habib Investments Limited the two companies have merged as of 27th 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 June 10, 2011 ). Arif Habib Investments Limited being a listed company is the surviving entity and in compliance of SBP's approval, it is a subsidiary of MCB Bank. However subsequent to the completion of the merger, the SECP issued an order postponing the effective date of the merger to 30th July 2011 (through letter no. SCD/PR & DD/AMCW/MCB-AMCL & AHI/348/2011 dated June 27, 2011). Since the merger had already taken place and the subsequent order of the SECP could not be complied with, the Company has sought a ruling by the honourable Sindh High Court (SHC). The honourable Sindh High Court (SHC) has held the SECP's subsequent order in abeyance and instructed SECP to treat the companies as merged pending a final ruling. Irrespective of the final ruling, the Fund's assets and NAV remain unaffected.

**1.2** Formation of the Fund as a closed-end fund was authorised by SECP on May 13, 2004, however with effect from November 11, 2010 the Fund was converted into open-end fund. The registered office of the Management Company is situated at 8th Floor, Techno City Corporate Tower, Hasrat Mohani Road, Karachi, Pakistan.

**1.3** The Fund is an open-ended fund listed on the Karachi Stock Exchange. Units are offered for public subscription on a continuous basis. The units are transferable and can be redeemed by surrendering them to the Fund.

**1.4** The Pakistan Credit Rating Agency Limited (PACRA) has assigned asset manager rating of 'A1' dated April 15, 2011 to the Management Company and 4-Star Normal and 4-Star Long Term to the Fund dated October 25, 2010.

**1.5** The Fund primarily invests in listed equity securities. It aslo invest in cash instruments and treasury bills not exceeding 90 days maturities.

**1.6** Title to the assets of the Fund is held in the name of the Trustee.

**2. CONVERSION OF THE FUND INTO AN OPEN-END FUND**

Arif Habib Investments Limited entered into a Supplemental Trust Deed with Central Depository Company of Pakistan Limited (the Trustee) on October 6, 2010 in order to initiate the conversion of the Fund from a closed end fund to an open-end fund pursuant to the resolution passed at a meeting of the Certificate Holders' held on September 8, 2010. The conversion of the Fund from a closed end fund to an open-end fund was authorised by Securities & Exchange Commission of Pakistan (SECP) vide its letter No. SCD/NBFC/MF-RS/PSAF/717/2010 dated September 23, 2010. The post conversion Trust Deed and post conversion Offering Document were approved by the SECP vide letter no. SCD/NBFC-II/PSAF/760/2010 dated October 4, 2010 and letter no. SCD/NBFC-II/PSAF/820/2010 dated October 28, 2010 respectively. The Fund was converted into an open-end fund with effect from November 11, 2010. Each certificate holder was allotted units according to their respective holdings as at that date on the basis of a ratio of 1 certificate : 1 unit. Accordingly 300,000,000 units were issued on the date of conversion.

**3. STATEMENT OF COMPLIANCE**

**3.1** These financial statements have been prepared in accordance with 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 Trust Deed, the Non-Banking Finance Companies and Notified Entities Regulations, 2008 (the NBFC Regulations) and directives issued by the Securities and Exchange Commission of Pakistan (SECP). Wherever the requirements of the Trust Deed, the NBFC Rules, the NBFC Regulations or directives issued by SECP differ with the requirements of IFRS, the requirements of the Trust Deed, the NBFC Rules, the NBFC Regulations or the directives issued by the SECP shall prevail.

**3.2** These financial statements comprise of statement of assets and liabilities, income statement, distribution statement, statement of movement in unit holders' fund and cash flow statement together with the notes forming part thereof.

**3.3 Adoption of new International Financial Reporting Standards**

In the current period, the Fund has adopted all new Standards issued by the IASB and as notified by the Securities and Exchange Commission of Pakistan that are relevant to its operations and effective for the Fund's accounting period beginning on July 01, 2010.

| | ***Effective from accounting period beginning on or after*** |
|---|---|
| *Amendments to IAS 7 - Statement of Cash Flows* | *January 01, 2010* |

The amendments (part of Improvements to IFRSs (2009)) specify that only expenditures that result in a recognised asset in the balance sheet can be classified as investing activities in the statement of cash flows. Consequently, any cash flows in respect of items that do not qualify for recognition as an asset (and, therefore, are recognised in profit or loss as incurred) would be reclassified from investing to operating activities in the statement of cash flows and prior year amounts restated for consistent presentation. There is no such classification in financial statements of the Fund for the year ended June 30, 2011.

Following new and revised Standards and Interpretations have also been adopted in these financial statements. Their adoption has no significant impact on the amounts reported in these financial statements but may affect the accounting for future transactions or arrangements.

| | ***Effective from accounting period beginning on or after*** |
|---|---|
| *Amendments to IFRS 2 - Share based Payment* | *January 01, 2010* |
| *Amendments to IFRS 5 - Non-current Assets Held for Sale and Discontinued Operations* | *January 01, 2010* |
| *Amendments to IAS 7 - Statement of Cash Flows* | *January 01, 2010* |
| *IFRIC 19 - Extinguishing Financial Liabilities with Equity Instruments* | *July 01, 2010* |

**3.4 New accounting standards and IFRS interpretations that are not yet effective**

The following International Financial Reporting Standards and Interpretations as notified by the Securities and Exchange Commission of Pakistan are only effective for accounting periods, beginning on or after the date mentioned against each of them:

| | ***Effective from accounting period beginning on or after*** |
|---|---|
| *IFRS 9 - Financial Instruments* | *January 01, 2013* |
| *Amendments to IAS 24 - Related Party Disclosures* | *January 01, 2011* |
| *IAS 27 (Revised) – Separate Financial Statements* | *January 01, 2013* |
| *IAS 28 – Investment in Associates and Joint Ventures* | *January 01, 2013* |
| *IAS 12 - Income Taxes (Amendment)* | *January 01, 2012* |
| *IFRS 7 - Financial Instruments: Disclosures* | *July 01, 2011* |
| *IAS 1 - Presentation of Financial Statements* | *January 01, 2011* |
| *IAS 34 - Interim Financial Reporting (Amendment)* | *January 01, 2011* |
| *IFRIC 13 - Customer Loyalty Programmes* | *January 01, 2011* |
| *IFRIC 14 - IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and Their Interaction (Amendment)* | *January 01, 2011* |

## 4. BASIS OF PREPARATION

**4.1 Accounting convention**

These financial statements have been prepared under the historical cost convention, except for such investments which are stated at fair value.

**4.2 Critical accounting estimates and judgments**

The preparation of financial statements in conformity with approved accounting standards requires the use of certain critical accounting estimates. It also requires the management to exercise its judgment in the process of applying the Fund's accounting policies. Estimates and judgments are continually evaluated and are based on historical experience, including expectations of future events that are believed to be reasonable under the circumstances.

The areas where various assumptions and estimates are significant to the Fund's financial statements or where judgment was exercised by the management in application of accounting policies principally relate to classification and valuation of investment (refer notes 5.1 and 5.4) and impairment of financial assets (refer note 5.5) in the financial assets.

## 5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 5.1 Financial assets

The management of the Fund classifies its financial assets in the following categories: at fair value through profit or loss, held to maturity, loans and receivables and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this classification on a regular basis.

**(a) Financial assets at fair value through profit or loss**

Financial assets that are acquired principally for the purpose of generating profit from short-term fluctuations in market prices, interest rate movements or are financial assets included in a portfolio in which a pattern of short-term profit taking exists.

**(b) Held to maturity**

These are financial assets with fixed or determinable payments and fixed maturity that the Fund has the positive intent and ability to hold to maturity.

**(c) Loans and receivables**

These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Fund's loans and receivables comprise of cash and bank balances, receivable against sale of investments, deposits, dividend and profit receivable.

**(d) Available for sale**

These are non-derivatives that are either designated in this category or not classified in any of the other categories.

### 5.2 Regular way contracts

Regular purchases and sales of financial assets are recognised on the trade date - the date on which the Fund commits to purchase or sell the asset.

### 5.3 Initial recognition and measurement

Financial assets are initially recognised at fair value plus transaction costs except for financial assets carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognized at fair value and transaction costs are expensed in the income statement.

### 5.4 Subsequent measurement

Subsequent to initial recognition, financial assets designated by the management as at fair value through profit or loss and available for sale are valued as follows:

**(a) Basis of valuation of Equity Securities**

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

Net gains and losses arising from the difference between the carrying amount and the value determined in accordance with the criteria mentioned above in respect of financial assets at fair value through profit or loss are taken to the income statement.

Net gains and losses arising from the difference in value determined in accordance with the above mentioned criteria compared to the carrying amount in respect of available for sale financial assets are recognised in other comprehensive income until the available for sale financial assets are derecognised. At this time, the cumulative gain or loss previously recognised directly in other comprehensive income is reclassified from other comprehensive income to income statement as a reclassification adjustment.

Loans and receivables and held to maturity financial assets are carried at amortised cost.

**(b) Basis of valuation of Government Securities**

The investment of the Fund in government securities is valued on the basis of rates announced by the Financial Market Association.

**5.5 Impairment**

The carrying amounts of the Fund's assets are assessed at each balance sheet date to determine whether there is any indication of impairment in any asset or group of assets. If such indication exists, the recoverable amount of the assets is estimated and impairment losses are recognised immediately as an expense in the income statement. In case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available for sale financial assets, the cumulative loss-measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in other comprehensive income is reclassified from other comprehensive income and recognised in the income statement. Impairment losses recognised on equity financial assets recognised in the income statement are not reversed through the income statement. For loans and receivables, a provision for impairment is established when there is objective evidence that the Fund will not be able to collect all amounts due according to the original terms. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

**5.6 Derecognition**

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired, have been realised or have been transferred and the Fund has transferred substantially all risks and rewards of ownership.

**5.7 Offsetting of financial assets and liabilities**

Financial assets and financial liabilities are offset and the net amount is reported in the Statement of Assets and Liabilities only 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 realise the assets and settle the liabilities simultaneously.

**5.8 Reclassification**

The Fund may choose to reclassify a non-derivative trading financial asset in equity securities out of the 'held for trading' category to the 'available for sale' category if the financial asset is no longer held for the purpose of selling it in the near term. Such reclassifications are made only in rare circumstances arising from a single event that is unusual and highly unlikely to recur in the near term. Reclassifications are made at fair value as of the reclassification date which then becomes the new cost and no reversals of fair value gains or losses recorded before the reclassification date are subsequently made.

**5.9 Financial liabilities**

All financial liabilities are recognised at the time when the Fund becomes a party to the contractual provisions of the instrument. A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired. Financial liabilities include payable to Management Company, payable to the trustee, payable against purchase of investments, unclaimed dividend and other liabilities.

**5.10 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 request 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.

**5.11 Element of income / (loss) and capital gains / (losses) included in 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 unrealised gains / (losses) held in the Unit Holder's Funds 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.

**5.12 Proposed dividend and transfer between reserves**

Dividends declared and transfers between reserves made subsequent to the balance sheet date are considered as non-adjusting events and are recognised in the financial statements in the period in which such dividends are declared / transfers are made.

**5.13 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 amount of obligation can be made. Provisions are regularly reviewed and adjusted to reflect the current best estimates.

**5.14 Earnings per unit**

Earnings per unit (EPU) has not been disclosed as in the opinion of the management determination of weighted average units for calculating EPU is not practicable.

**5.15 Taxation**

No provision for taxation has been made as Fund is exempt from Income Tax as per 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 the accounting income for the year as reduced by capital gains, whether realised or unrealised, to its unit holders every year.

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

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 asset on unutilised tax losses to the extent that it is no longer probable that the related tax benefit will be realised. However, the Fund has not recognised any amount in respect of deferred tax in these financial statements as the Fund intends to continue availing the tax exemption in future years 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 every year.

**5.16 Preliminary expenses and floatation costs**

Preliminary expenses and floatation costs represent expenditure incurred prior to the commencement of operations of the Fund and include underwriting commission, commission to the bankers to the issue, brokerage paid to the members of the stock exchanges and other expenses. These costs has been amortised over a period of five years starting from the commencement of operations of the Fund.

**5.17 Revenue recognition**

Realised 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 gains / losses arising on marking to market 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.

Dividend income is recognised when the right to receive the payment is established.

Profit on bank deposits is recognised on an accrual basis.

Profit on investment is recognised on an accrual basis.

**5.18 Cash and cash equivalent**

Cash and cash equivalent comprise of balances with banks.

**5.19 Foreign currency translation**

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement. Translation differences on non-monetary financial assets and liabilities such as equities at fair value through profit or loss are recognised in the Income Statement within the fair value net gain or loss.

**5.20 Segment reporting**

As per IFRS 8, operating segments are reported in a manner consistent with the internal reporting used by the chief operating decision-maker. The Investment Committee of the Fund has been identified as the chief operating decision-maker, which is responsible for allocating resources and assessing performance of the operating segments.

The Investment Committee is responsible for the Fund's entire portfolio and considers the business as a single operating segment. The Fund's asset allocation decisions are based on a single integrated investment strategy and the Fund's performance is evaluated on an overall basis.

**5.21 Functional and presentation currency**

Items included in the financial statements are measured using the currency of the primary economic environment in which the Fund operates. The financial statements are presented in Pakistani Rupees, which is the Fund's functional and presentation currency.

**6. BALANCES WITH BANKS**

| | Note | 2011 | 2010 |
|---|---|---|---|
| | | (Rupees in '000) | |
| In current accounts | | **12,654** | 11,307 |
| In deposit accounts | 6.1 | **30,103** | 27,553 |
| | | **42,757** | 38,860 |

**6.1** The profit rate on this account is 9.5% to 11% per annum (2010: 5% to 11.25% per annum).

**7. INVESTMENTS**

| | Note | 2011 | 2010 |
|---|---|---|---|
| **At fair value through profit or loss** | | | |
| Listed equity securities | 7.1 | **571,670** | 1,796,146 |
| Government securities | 7.2 | **-** | 477,157 |
| | | **571,670** | 2,273,303 |
| **Available for sale** | | | |
| Listed equity securities | 7.3 | **6,224** | 106,224 |
| | | **577,894** | 2,379,527 |

# PAKISTAN STRATEGIC ALLOCATION FUND
# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
# FOR THE YEAR ENDED JUNE 30, 2011

**7.1 Listed equity securities 'at fair value through profit or loss'**

| Name of the Investee company | Number of shares | | | | | Balance as at 30 June 2011 | | | Market value as percentage of net assets | Market value as percentage of investments | Paid up value of shares as % of total paid up capital of the investee company |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | As at 1 July 2010 | Purchases during the year | Bonus / Right Issue | Sales during the year | As at 30 June 2011 | Cost | Carrying / Market value | Appreciation / (Diminution) | | | |
| | | | | | | ------(Rupees in '000)------ | | | | | |
| **SHARES OF LISTED COMPANIES - Fully paid ordinary shares of Rs. 10 each unless stated otherwise** | | | | | | | | | | | |
| **OIL AND GAS** | | | | | | | | | | | |
| Pakistan Oilfields Limited | 1,046,960 | 28,900 | - | 910,506 | 165,354 | 38,952 | 59,364 | 20,412 | 9.76 | 10.27 | 1.19 |
| Pakistan Petroleum Limited | 1,296,961 | 40,600 | 110,422 | 1,173,050 | 274,933 | 41,226 | 56,930 | 15,704 | 9.36 | 9.85 | 0.48 |
| Pakistan State Oil Company Limited | 351,823 | 194,000 | - | 408,123 | 137,700 | 39,558 | 36,433 | (3,125) | 5.99 | 6.30 | 2.12 |
| | | | | | | **119,736** | **152,727** | **32,991** | | | |
| **CHEMICALS** | | | | | | | | | | | |
| Engro Corporation Limited | 1,121,613 | 222,400 | 93,845 | 1,107,386 | 330,472 | 44,173 | 53,950 | 9,777 | 8.87 | 9.34 | 1.65 |
| Fauji Fertilizer Bin Qasim Limited | 3,850,904 | - | - | 3,342,100 | 508,804 | 14,787 | 21,446 | 6,659 | 3.53 | 3.71 | 0.23 |
| I.C.I Pakistan Limited | 1,234,635 | 2,800 | - | 1,237,435 | - | - | - | - | - | - | - |
| Fatima Fertilizer Co Limited | - | 1,385,385 | - | - | 1,385,385 | 16,760 | 23,053 | 6,293 | 3.79 | 3.99 | 0.11 |
| | | | | | | **75,720** | **98,449** | **22,729** | | | |
| **CONSTRUCTION AND MATERIALS** | | | | | | | | | | | |
| Lucky Cement Limited | - | 478,400 | - | - | 478,400 | 33,290 | 33,890 | 600 | 5.57 | 5.86 | 0.68 |
| | | | | | | **33,290** | **33,890** | **600** | | | |
| **GENERAL INDUSTRIALS** | | | | | | | | | | | |
| Packages Limited | 1,584,943 | - | - | 968,368 | 616,575 | 92,464 | 67,823 | (24,641) | 11.15 | 11.74 | 4.52 |
| | | | | | | **92,464** | **67,823** | **(24,641)** | | | |
| **AUTOMOBILE AND PARTS** | | | | | | | | | | | |
| Pak Suzuki Motor Company Limited | 191,550 | - | - | 191,000 | 550 | 88 | 34 | (54) | 0.01 | 0.01 | 0.00 |
| | | | | | | **88** | **34** | **(54)** | | | |
| **HOUSEHOLD GOODS** | | | | | | | | | | | |
| Pakistan Elektron Limited | 2,959,750 | - | - | 2,959,750 | - | - | - | - | - | - | - |
| | | | | | | - | - | - | | | |

# PAKISTAN STRATEGIC ALLOCATION FUND
# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
# FOR THE YEAR ENDED JUNE 30, 2011

| Name of the Investee company | Number of shares | | | | | Balance as at 30 June 2011 | | | Market value as percentage of net assets | Market value as percentage of investments | Paid up value of shares as % of total paid up capital of the investee company |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | As at 1 July 2010 | Purchases during the year | Bonus / Right Issue | Sales during the year | As at 30 June 2011 | Cost | Carrying / Market value | Appreciation / (Diminution) | | | |
| | | | | | | ------(Rupees in '000)------ | | | | | |
| **PERSONAL GOODS** | | | | | | | | | | | |
| Nishat Mills Limited | 2,703,505 | 13,501 | - | 1,993,000 | 724,006 | 37,563 | 36,446 | (1,117) | 5.99 | 6.31 | 0.33 |
| | | | | | | **37,563** | **36,446** | **(1,117)** | | | |
| **TOBACCO** | | | | | | | | | | | |
| Pakistan Tobacco Company Limited | 22,500 | - | - | 22,500 | - | - | - | - | - | - | - |
| | | | | | | - | - | - | | | |
| **PHARMA AND BIO TECH** | | | | | | | | | | | |
| Searle Pakistan Limited | 116,899 | - | - | 116,899 | - | - | - | - | - | - | - |
| | | | | | | - | - | - | | | |
| **FIXED LINE TELECOMMUNICATION** | | | | | | | | | | | |
| Pak Telecommunication Company Limited | - | 1,342,799 | - | 950,711 | 392,088 | 7,215 | 5,575 | (1,640) | 0.92 | 0.96 | 0.01 |
| Wateen Telecom Limited | 2,000,000 | 9 | - | 2,000,009 | - | - | - | - | - | - | - |
| Lotte Pakistan PTA Limited | - | 1,942,211 | | 1,942,211 | - | - | - | - | - | - | - |
| | | | | | | **7,215** | **5,575** | **(1,640)** | | | |
| **ELECTRICITY** | | | | | | | | | | | |
| Hub Power Company Limited | 3,905,168 | 485,200 | - | 2,916,600 | 1,473,768 | 48,318 | 55,266 | 6,948 | 9.09 | 9.56 | 0.46 |
| Kot Addu Power Company Limited | 4,174,324 | - | - | 3,375,240 | 799,084 | 37,984 | 34,049 | (3,935) | 5.60 | 5.89 | 0.09 |
| | | | | | | **86,302** | **89,315** | **3,013** | | | |
| **BANKS** | | | | | | | | | | | |
| Allied Bank Limited | 1,875,476 | 102,642 | 82,901 | 1,201,353 | 859,666 | 46,405 | 55,139 | 8,734 | 9.07 | 9.54 | 0.71 |
| Bank AL-Habib Limited | 515,000 | - | - | 515,000 | - | - | - | - | - | - | - |
| National Bank of Pakistan | - | 445,674 | 81,593 | 520,300 | 6,967 | 390 | 351 | (39) | 0.06 | 0.06 | 0.00 |
| United Bank Limited | - | 665,200 | - | 149,600 | 515,600 | 32,907 | 31,921 | (986) | 5.25 | 5.52 | 0.26 |
| | | | | | | **79,702** | **87,411** | **7,709** | | | |
| | | | | | | **532,080** | **571,670** | **39,590** | | | |

# PAKISTAN STRATEGIC ALLOCATION FUND
# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
# FOR THE YEAR ENDED JUNE 30, 2011

**7.2 Government securities - 'at fair value through profit or loss'**

| Issue Date | Tenor | Face Value | | | | Balance as at 30 June 2011 | | | Market value | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | As at 1 July, 2010 | Purchases during the year | Sales / Matured during the year | As at June 30, 2011 | Cost | Market value | Appreciation / (Diminution) | Market value as % of net assets | Market value as % of total investment |
| **Pakistan Investment Bonds** | | | | | | | | | | |
| September 3, 2009 | 5 Years | 25,000 | - | 25,000 | - | - | - | - | - | - |
| September 3, 2009 | 3 Years | 25,000 | - | 25,000 | - | - | - | - | - | - |
| **Treasury Bills** | | | | | | | | | | |
| September 26, 2009 | 12 Months | 50,000 | - | 50,000 | - | - | - | - | - | - |
| October 8, 2009 | 12 Months | 75,000 | - | 75,000 | - | - | - | - | - | - |
| July 29, 2010 | 12 Months | - | 253,000 | 253,000 | - | - | - | - | - | - |
| March 11, 2011 | 12 Months | - | 5,000 | 5,000 | - | - | - | - | - | - |
| January 14, 2011 | 6 Months | - | 100,000 | 100,000 | - | - | - | - | - | - |
| February 25, 2011 | 6 Months | - | 100,000 | 100,000 | - | - | - | - | - | - |
| June 3, 2011 | 6 Months | - | 223,000 | 223,000 | - | - | - | - | - | - |
| April 8, 2010 | 3 Months | 25,000 | - | 25,000 | - | - | - | - | - | - |
| April 22, 2010 | 3 Months | 135,000 | 175,000 | 310,000 | - | - | - | - | - | - |
| May 20, 2010 | 3 Months | 150,000 | - | 150,000 | - | - | - | - | - | - |
| July 15, 2010 | 3 Months | - | 250,000 | 250,000 | - | - | - | - | - | - |
| August 13, 2010 | 3 Months | - | 345,000 | 345,000 | - | - | - | - | - | - |
| August 26, 2010 | 3 Months | - | 100,000 | 100,000 | - | - | - | - | - | - |
| September 9, 2010 | 3 Months | - | 455,000 | 455,000 | - | - | - | - | - | - |
| October 7, 2010 | 3 Months | - | 200,000 | 200,000 | - | - | - | - | - | - |
| October 21, 2010 | 3 Months | - | 339,500 | 339,500 | - | - | - | - | - | - |
| November 4, 2010 | 3 Months | - | 555,000 | 555,000 | - | - | - | - | - | - |
| December 2, 2010 | 3 Months | - | 325,000 | 325,000 | - | - | - | - | - | - |
| December 18, 2010 | 3 Months | - | 50,000 | 50,000 | - | - | - | - | - | - |
| January 13, 2011 | 3 Months | - | 50,000 | 50,000 | - | - | - | - | - | - |
| March 30, 2011 | 3 Months | - | 10,000 | 10,000 | - | - | - | - | - | - |
| January 27, 2011 | 3 Months | - | 75,000 | 75,000 | - | - | - | - | - | - |
| May 3, 2011 | 3 Months | - | 50,000 | 50,000 | - | - | - | - | - | - |
| February 24, 2011 | 3 Months | - | 30,000 | 30,000 | - | - | - | - | - | - |
| April 7, 2011 | 3 Months | - | 60,000 | 60,000 | - | - | - | - | - | - |
| April 21, 2011 | 3 Months | - | 30,000 | 30,000 | - | - | - | - | - | - |
| February 10, 2011 | 3 Months | - | 50,000 | 50,000 | - | - | - | - | - | - |
| | | | | | | - | - | - | | |

## PAKISTAN STRATEGIC ALLOCATION FUND
## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
## FOR THE YEAR ENDED JUNE 30, 2011

**7.3 Listed equity securities - 'available for sale'**

| Name of the Investee company | Number of shares | | | | | Balance as at 30 June 2011 | | | Market value as percentage of net assets | Market value as percentage of investments | Paid up value of shares as % of total paid up capital of the investee company |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | As at 1 July 2010 | Purchases during the year | Bonus / Right Issue | Sales during the year | As at 30 June 2011 | Cost | Carrying / Market value | Appreciation / (Diminution) | | | |
| | | | | | | ------(Rupees in '000)------ | | | | | |
| **SHARES OF LISTED COMPANIES - Fully paid ordinary shares of Rs. 10 each unless stated otherwise** | | | | | | | | | | | |
| **CHEMICALS** | | | | | | | | | | | |
| Fauji Fertilizer Company Limited | 808,463 | - | 31,965 | 840,428 | - | - | - | - | - | - | - |
| | | | | | | - | - | - | - | | |
| **AUTOMOBILE AND PARTS** | | | | | | | | | | | |
| Pak Suzuki Motor Company Limited | 83,820 | - | - | - | 83,820 | 4,571 | 5,243 | 672 | 0.86 | 0.91 | 0.00 |
| | | | | | | **4,571** | **5,243** | **672** | **0.86** | | |
| **PERSONAL GOODS** | | | | | | | | | | | |
| Kohinoor Mills Limited | 934,626 | - | - | - | 934,626 | 2,953 | 981 | (1,972) | 0.16 | 0.17 | 0.00 |
| Kohinoor Textile Mills Limited | 1,031,482 | - | - | 1,031,482 | - | - | - | - | - | - | - |
| Reliance Weaving Mills Limited | 833,422 | - | - | 833,422 | - | - | - | - | - | - | - |
| | | | | | | **2,953** | **981** | **(1,972)** | **0.16** | | |
| | | | | | | **7,524** | **6,224** | **(1,300)** | | | |

**7.4** The above includes shares with a market value aggregating to Rs. 49,266 thousand (2010: Rs 44,660 thousand) which have been pledged with National Clearing Company of Pakistan Limited for guarantee against settlement of the Fund's trades in terms of Circular no 11 dated October 23, 2007 issued by the Securities and Exchange Commission of Pakistan.

**7.5 Net unrealised appreciation / (diminution) in value of investment at fair value through profit or loss**

| | 2011 | 2010 |
|---|---|---|
| | (Rupees in '000) | |
| Market value of investments | **571,670** | 2,273,303 |
| Less: Cost of investments | **(532,080)** | (2,471,957) |
| | **39,590** | (198,654) |
| Less: Realised on disposal during the year | **(165,441)** | (364,514) |
| Add: Net unrealised diminution in value of investments at fair value through profit or loss at the beginning of the year | **198,654** | 533,391 |
| | **72,803** | (29,777) |

**7.6 Net unrealised appreciation / (diminution) in value of investment classified as 'available for sale'**

| | 2011 | 2010 |
|---|---|---|
| Market value of investments | **6,224** | 106,224 |
| Less: Cost less impairment at beginning of the year | **(7,524)** | (70,515) |
| | **(1,300)** | 35,709 |
| Impairment loss on financial assets classified as 'available for sale' transferred to income statement | **1,972** | 1,589 |
| | **672** | 37,298 |
| Less: Net unrealised appreciation in value of investments at the beginning of the year | **(37,298)** | (27,146) |
| | **(36,626)** | 10,152 |

**8. DIVIDEND AND PROFIT RECEIVABLE**

| | 2011 | 2010 |
|---|---|---|
| Dividend receivable | **3,725** | - |
| Profit / income accrued on: | | |
| - Balance with banks | **348** | 327 |
| - Pakistan Investment Bonds | **-** | 1,870 |
| | **348** | 2,197 |
| | **4,073** | 2,197 |

**9. ADVANCES, DEPOSITS AND OTHER RECEIVABLES**

| | 2011 | 2010 |
|---|---|---|
| Advance tax | **171** | 171 |
| Deposit with Central Depository Company of Pakistan | **300** | 300 |
| Deposit with National Clearing Company of Pakistan | **2,500** | 2,500 |
| Other receivables | **151** | 125 |
| | **3,122** | 3,096 |

**10. PAYABLE TO MANAGEMENT COMPANY**

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. In compliance with the requirement of the said regulation, the Management Company has charged remuneration at two percent per annum with effect from August 23, 2009 (three percent till August 22, 2009) as the Fund has completed its five years on August 22, 2009.

**11. PAYABLE TO CENTRAL DEPOSITORY COMPANY OF PAKISTAN LIMITED - TRUSTEE**

| | Note | 2011 | 2010 |
|---|---|---|---|
| | | (Rupees in '000) | |
| Remuneration payable | 11.1 | **112** | 199 |
| Custody fee payable | | **-** | 26 |
| CDS charges payable | | **1** | 6 |
| | | **113** | 231 |

**11.1** The Trustee is entitled to a monthly remuneration for services rendered to the Fund under the provisions of the Trust Deed as per the tariff specified therein, based on the daily net asset value of the Fund.

Based on the Trust Deed, the tariff structure applicable to the Fund from July 01, 2010 to November 10, 2010 and from November 11, 2010 to June 30, 2011 is as follows:

| Amount of Funds Under Management (Average NAV) | Tariff per annum |
|---|---|
| **From July 01, 2010 to November 10, 2010** | |
| On amount exceeding Rs. 2,000 million up to Rs. 5,000 million | Rs. 2,075,000 plus 0.06% p.a. on amount |
| **From November 11, 2010 to June 30, 2011** | |
| Up to Rs.1,000 million. | Rs. 0.7 million or 0.20% p.a of NAV, which ever 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. |

The remuneration is paid to the trustee monthly in access.

**12. 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.

**13. ACCRUED EXPENSES AND OTHER LIABILITIES**

| | Note | 2011 | 2010 |
|---|---|---|---|
| | | (Rupees in '000) | |
| Auditors' remuneration | | **290** | 250 |
| Legal and professional | | **70** | 65 |
| Brokerage payable | | **436** | 848 |
| Others | | **704** | 369 |
| Conversion cost payable | 13.1 | **7,600** | - |
| | | **9,100** | 1,532 |

**13.1 Conversion Cost**

Conversion cost represent expenditure incurred in connection with the conversion of the Fund into an open-end fund and includes fee paid to Securities and Exchange Commission of Pakistan (SECP), CDC charges for transfer of closed end certificates into open-end units, professional charges for revision of constitutive documents and other expenses. These costs have been charged immediately as expense in the year of conversion in accordance with the condition notified by SECP vide its letter no. SCD/NBFC/MF-RS/PSAF/717/2010 dated September 23, 2010.

## 14. CONTINGENCIES AND COMMITMENTS

### 14.1 Contribution To 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. A petition has been filed with the Honorable High Court of Sindh by some of the Collective Investment Schemes through their Trustees on the ground that the CIS (Mutual Funds) are not establishments and as a result not liable to pay contribution to WWF.

Subsequently, the Ministry of Labour and Manpower (the Ministry) vide its letter dated July 8, 2010 issued advice and clarifications which stated that WWF Ordinance 1971 is not applicable to any public listed company and any organized financial institutions including Mutual Funds because they are ruled and governed by separate laws. Further, in a subsequent letter dated July 15, 2010 the Ministry clarified that “Mutual Fund(s) is a product which is being managed / sold by the Asset Management Companies which are liable to contribute towards Workers Welfare Fund under Section-4 of WWF Ordinance 1971. However, the income on Mutual Fund(s), the product being sold, is exempted under the law ibid”.

Further, the Secretary (Income Tax Policy) Federal Board of Revenue (FBR) issued a letter dated October 6, 2010 to the Members (Domestic Operation) North and South FBR. In the letter reference was made to the clarification issued by the Ministry of Labour and Manpower stating that Mutual Funds are a product and their income are exempted under the law ibid. The Secretary (Income Tax Policy) Federal Board of Revenue directed that the Ministry’s letter may be circulated amongst field formations for necessary action. Following the issuance of FBR letter, show cause notice which had been issued by taxation office for two Mutual Funds for payment of levy under WWF had been withdrawn. However, the Secretary (Income Tax Policy) Federal Board of Revenue vide letter January 4, 2011 has cancelled ab-initio clarificatory letter dated October 6, 2010 on applicability of WWF on Mutual Funds. On December 14, 2010, the Ministry filed its response to the constitutional petition pending in the Court. As per the legal counsel who is handling the case, there is contradiction between the above earlier letter and clarification of the Ministry and the response filed by the Ministry before Honourable High Court of Sindh.

Subsequent to the year end, Lahore High Court vide its judgement on a similar case has declared the amendments introduced vide Finance Act 2006 and Finance Act, 2008 in WWF Ordinance as unconstitutional and therefore struck down on the basis that the contribution paid towards the Fund under WWF Ordinance is a fee and not a tax.

In view of the afore mentioned developments, the Management Company now believes that there is no compelling reason to make provision on account of WWF contribution in the financial statements. Further, the Management Company also expects that the constitutional petition pending in the Honourable High Court of Sindh on the subject as referred above will be decided in favour of the Mutual Funds. The aggregate unrecognised amount of WWF as at June 30, 2011 amounted to Rs.9.975 million.

**14.2** There were no contingencies and commitments as at June 30, 2011 ( June 30, 2010 Nil )

## 15. AUDITOR’S REMUNERATION

| | 2011 | 2010 |
|---|---|---|
| | (Rupees in ‘000) | |
| Annual audit fee | **340** | 340 |
| Other certifications and services | **30** | 10 |
| Out of pocket expenses | **13** | 34 |
| | **383** | 384 |

## 16. 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.

**17. TRANSACTIONS WITH CONNECTED PERSONS**

Connected persons of the Fund include the Management Company, other collective incvestment schemes being managed by the Management Company, MCB Bank Limited being the holding company of the Management Company, the Trustee, directors and key management personnel and other associated undertaking.

Remuneration to the Management Company and Trustee are determined in accordance with the provisions of the NBFC Regulations and the Trust Deed of the Fund. All other transactions with connected persons are in the normal course of business and are carried out on agreed terms.

Detail of transactions with connected persons during the year and balances with them at year end are as follows:

**17.1 Transactions during the year**

| | 2011 | 2010 |
|---|---|---|
| | (Rupees in '000) | |
| **Management Company** | | |
| Remuneration | **31,271** | 55,593 |
| Redemption of 15,629,000 units (2010: Nil) | **127,642** | - |
| Conversion cost payable | **7,600** | - |
| **Central Depository Company of Pakistan Limited - Trustee** | | |
| Remuneration | **2,122** | 2,439 |
| CDC charges | **-** | 447 |
| **Arif Habib Limited - Brokerage house** | | |
| Brokerage expense | **983** | 703 |
| **Summit Bank Limited** | | |
| Redemption of 2,237,000 units (2010: Nil) | **18,411** | - |
| Mark up income | **2,901** | 14,131 |
| Bank charges | **48** | - |
| **Arif Habib Corporation** | | |
| Redemption of 45,403,658 units (2010: Nil) | **355,283** | - |
| Dividend paid | **52,369** | - |
| **Arif Habib Investments Employee Provident Fund** | | |
| Redemption of 380,902 units (2010: Nil) | **3,017** | - |
| Dividend paid | **439** | - |
| **Arif Habib Investments Employee Stock Beneficial Ownership Fund** | | |
| Redemption of 61,000units (2010: Nil) | **483** | - |
| Dividend paid | **70** | - |
| **Directors and executives of the Management Company** | | |
| Issue of 627,970 units (2010: Nil) | **4,946** | - |
| Redemption of 586,970 units (2010:Nil) | **4,702** | - |
| Dividend paid | **300** | - |

**17.2 Balances outstanding at year end**

| | 2011 | 2010 |
|---|---|---|
| | (Rupees in '000) | |
| **Management Company** | | |
| Unit/certificates held NIL (June 30, 2010: 15,629,000 certificates) | **-** | 156,290 |
| Remuneration payable | **1,124** | 4,228 |
| Conversion cost payable | **7,600** | - |
| **Central Depository Company of Pakistan Limited - Trustee** | | |
| Remuneration payable | **112** | 199 |
| Other payables | **1** | 32 |
| Security deposits | **300** | 300 |
| **Arif Habib Limited - Brokerage house** | | |
| Brokerage payable | **66** | 95 |
| **Summit Bank Limited** | | |
| Unit/certificates held NIL (June 30, 2010: 2,237,000 certificates) | **-** | 22,370 |
| Balances with bank | **31,468** | 16,955 |
| Accrued mark-up | **144** | 303 |
| **Arif Habib Corporation Limited** | | |
| Unit/certificates held : Nil ( June 30, 2010: 45,403,658 certificates) | **-** | 454,037 |
| **Arif Habib Investment Employees Provident Fund** | | |
| Unit/certificates held : Nil( June 30, 2010: 380,902 certificates) | **-** | 3,809 |
| **Arif Habib Investment Employees Stock Beneficial Ownership Fund** | | |
| Unit/certificates held: Nil ( June 30, 2010: 61,000 certificates) | **-** | 610 |

## 18. PARTICULARS OF INVESTMENT COMMITTEE

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

| | Name | Designation | Qualification | Experience in years |
|---|---|---|---|---|
| 1 | Mr. Yasir Qadri | Chief Executive Officer | MBA | **16** |
| 2 | Mr. Ahsan Mehanti | Director Wealth Management | ACA, ACMA, CPA | **14** |
| 3 | Mr. Kashif Rafi | Fund Manager - Fixed Income | MBA, CFA Level-1 | **10** |
| 4 | Mr. Muhammad Asim | Fund Manager - Equity Funds | MBA & CFA | **8** |
| 5 | Mr. Mohsin Pervez | Senior Research Analyst | MBA, CFA Level-1 | **10** |
| 6 | Mr. Syed Akbar Ali | Senior Research Analyst | MBA & CFA | **6** |

## 19. TOP TEN BROKERS / DEALERS BY PERCENTAGE OF COMMISSION PAID

| | 2011 % |
|---|---|
| Arif Habib Limited | **20.74** |
| Invest & Finance Securities (Pvt) Limited | **6.30** |
| KASB Securities Limited | **5.81** |
| Foundation Securities (Pvt) Limited | **5.16** |
| Aba Ali Habib Securities Limited | **4.80** |
| Elixir Securities Limited | **4.66** |
| Al Hoqani Securities and Investment Corporation (Pvt) Limited | **4.23** |
| Taurus Securities Limited | **3.92** |
| D J M Securities (Pvt) Limited | **3.08** |
| Global Securities Pakistan Limited | **2.98** |

| | 2010 |
|---|---|
| | % |
| Arif Habib Limited | 12.85 |
| Invest & Finance Securities (Pvt) Limited | 8.20 |
| IGI Finex Securities Limited | 8.15 |
| BMA Capital Management Limited | 7.48 |
| Taurus Securities Limited | 4.48 |
| Ample Securities (Pvt) Limited | 4.3 |
| Habib Metropolitan Financial Services Limited. | 3.48 |
| Cassim Investment (Pvt) Limited | 3.43 |
| D J M Securities (Pvt) Limited | 3.25 |
| JS Global Capital Limited | 3.18 |

**20. PATTERN OF UNIT HOLDING**

| | As at June 30, 2011 | | |
|---|---|---|---|
| | Number of Unit Holders | Investment amount | Percentage investment |
| | ---------------(Rupees in '000)--------------- | | |
| Individuals | **1,797** | **356,195** | **58.56%** |
| Associated companies | **1** | **4,343** | **0.71%** |
| Insurance companies | **5** | **18,416** | **3.03%** |
| Bank / DFIs | **11** | **110,591** | **18.18%** |
| Retirement funds | **21** | **27,233** | **4.48%** |
| Public limited companies | **12** | **47,108** | **7.74%** |
| Others | **30** | **44,356** | **7.29%** |
| | **1,877** | **608,242** | **100%** |

| | As at June 30, 2010 | | |
|---|---|---|---|
| | Number of Unit Holders | Investment amount | Percentage investment |
| | ---------------(Rupees in '000)--------------- | | |
| Individuals | 2,242 | 744,878 | 24.83% |
| Associated companies | 5 | 637,116 | 21.24% |
| Insurance companies | 6 | 25,135 | 0.84% |
| Bank / DFIs / NBFCs | 36 | 1,229,129 | 40.97% |
| Public limited companies | 12 | 54,740 | 1.82% |
| Others | 78 | 309,002 | 10.30% |
| | 2,379 | 3,000,000 | 100% |

**21. ATTENDANCE AT MEETINGS OF BOARD OF DIRECTORS**

The 74th, 75th, 76th, 77th, 78th, 79th,80th, 81st, 82nd, 83rd, 84th, 85th, 86th, 87th, and 88th Board meetings were held on July 05, August 03, August 04, October 22, October 25, November 12, December 20, December 30, 2010, February 17, February 19, April 16, April 21, April 23, June 15, June 27, 2011 respectively.

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

| Name of Director | Number of Meetings Held | Attended | Leave Granted | Meeting not attended |
|---|---|---|---|---|
| Mr. Muhammad Shafi Malik | 15 | 15 | - | - |
| Mr. Nasim Beg | 15 | 15 | - | - |
| Mr. Muhammad Akmal Jameel | 15 | 15 | - | - |
| Mr. Muhammad Kashif | 15 | 11 | 4 | 74th, 77th, 87th and 88th meeting |
| Syed Ajaz Ahmed | 15 | 13 | 2 | 74th and 88th meeting |
| Mr. Sirajuddin Cassim | 15 | 4 | 11 | 74th to 83rd and 88th meeting |
| Mr. S. Gulrez Yazdani | 15 | 13 | 2 | 75th, and 76th meeting |
| Mr. Samad A. Habib * | 6 | 6 | - | - |
| Mian Mohammad Mansha ** | 1 | 1 | - | - |
| Mr. Yasir Qadri ** | 1 | 1 | - | - |
| Syed Salman Ali Shah ** | 1 | 1 | - | - |
| Mr. Haroun Rashid ** | 1 | 1 | - | - |
| Mr. Ahmed Jahangir ** | 1 | 1 | - | - |
| Mr. Mirza Mahmood Ahmad ** | 1 | 1 | - | - |

* Mr. Samad A.Habib was appointed as a director on February 17, 2011 and approved by SECP on March 31, 2011

** They were appointed and approved of SECP is awaited.

## 22. FINANCIAL RISK MANAGEMENT

The Fund's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Fund's financial performance.

The Fund's activities expose it to a variety of financial risks: market risk (including currency risk, interest rate and price risk), credit risk and liquidity risk. Risk of the Fund are being managed by the Management Company in accordance with the approved policies of the investment committee which provide broad guidelines for management of above mention risks.

The Fund primarily financial assets comprise of balance with banks investment in equity securities of listed companies classsified at 'fair value through profit or loss' and 'available for sale'.The Fund also has dividend and profit receivable, deposits and other receivables. The Fund's principal financial liabilities include remuneration payable to Management Company, Trustee and SECP and accrued and other liabilities.

### 22.1 Market risk

Market risk is the risk that the fair value or the future cash flows of a financial instrument may fluctuate as a result of changes in market prices.

The Management Company manages market risk by monitoring exposure on marketable securities by following the internal risk management policies and investment guidelines approved by the Board and regulations laid down by the Securities and Exchange Commission of Pakistan and the Non Banking Finance Companies and Notified Entities Regulations, 2008 (the Regulations), The Non Banking Finance Companies (establishment and Regulation) Rules, 2003 (the Rules).

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

#### 22.1.1 Currency risk

At June 30, 2011, the Fund does not have any currency risk at the balance sheet date.

### 22.1.2 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.

**Sensitivity analysis of variable rate instruments**

As at June 30, 2011, the Fund does not hold any interest based investment except balances with bank in deposit account exposing the Fund to cash flow interest rate risk. In case of 100 basis points increase / decrease in KIBOR on June 30, 2011, 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. 0.163 million (2010: Rs. 0.324 million).

The composition of the Fund's investment portfolio, KIBOR rates and rates announced by Financial Market Association is expected to change over time. Accordingly, the sensitivity analysis prepared as of June 30, 2011 is not necessarily indicative of the impact on the Fund's net assets of future movements in interest rates.

Yield / interest rate sensitivity position for on balance sheet financial instruments is based on the earlier of contractual repricing or maturity date and for off-balance sheet instruments is based on the settlement date.

| | ---------------------------- June 30, 2011---------------------------- | | | | |
|---|---|---|---|---|---|
| | Exposed to yield / interest rate risk | | More than one year | Not exposed to Yield / interest rate risk | Total |
| | Up to three months | More than three months and up to one year | | | |
| **On-balance sheet financial instruments** | ----------------------(Rupees in '000)---------------------- | | | | |
| **Financial Assets** | | | | | |
| Balances with banks | 30,103 | - | - | 12,654 | 42,757 |
| Investments | - | - | - | 577,894 | 577,894 |
| Receivable against sale of investments | - | - | - | 4,872 | 4,872 |
| Dividend and profit receivable | - | - | - | 4,073 | 4,073 |
| Advances, deposits and other receivables | - | - | - | 3,122 | 3,122 |
| | 30,103 | - | - | 602,615 | 632,718 |
| **Financial Liabilities** | | | | | |
| Payable to Management Company | - | - | - | 1,124 | 1,124 |
| Payable to Central Depository Company of Pakistan Limited - Trustee | - | - | - | 113 | 113 |
| Unclaimed dividend | - | - | - | 12,654 | 12,654 |
| Accrued expenses and other liabilities | - | - | - | 9,100 | 9,100 |
| | - | - | - | 22,991 | 22,991 |
| **On-balance sheet gap** | 30,103 | - | - | 579,624 | 609,727 |

There is no off-balance sheet financial instrument that exist as at year ended June 30, 2011.

| | ---------------------------- June 30, 2010---------------------------- | | | | |
|---|---|---|---|---|---|
| | Exposed to yield / interest rate risk | | More than one year | Not exposed to Yield / interest rate risk | Total |
| | Up to three months | More than three months and up to one year | | | |
| **On-balance sheet financial instruments** | ---------------------(Rupees in '000)--------------------- | | | | |
| **Financial Assets** | | | | | |
| Balances with banks | 27,553 | | 11,307 | | 38,860 |
| Investments | - | - | - | 127,266 | 127,266 |
| Receivable against sale of investments | 355,961 | 72,627 | 48,569 | 1,902,370 | 2,379,527 |
| Dividend and profit receivable | - | - | - | 2,197 | 2,197 |
| Advances, deposits and other receivables | - | - | - | 2,925 | 2,925 |
| | 383,514 | 72,627 | 59,876 | 2,034,758 | 2,550,775 |
| **Financial Liabilities** | | | | | |
| Payable to Management Company | - | - | - | 4,228 | 4,228 |
| Payable to Central Depository Company of Pakistan Limited - Trustee | - | - | - | 231 | 231 |
| Unclaimed dividend | - | - | - | 11,307 | 11,307 |
| Accrued expenses and other liabilities | - | - | - | 1,532 | 1,532 |
| | - | - | - | 17,298 | 17,298 |
| **On-balance sheet gap** | 383,514 | 72,627 | 59,876 | 2,017,460 | 2,533,472 |

There is no off-balance sheet financial instrument that exist as at year ended June 30, 2010.

**22.1.3 Price risk**

The Fund is exposed to equity price risk because of equity securities held by the Fund and classified on the balance sheet as at fair value through profit or loss and available for sale. To manage its price risk arising from investment in equity securities, the Fund's investment policy, as restricted by the NBFC Regulations, the NBFC Rules, limits investments in listed shares of one company to not more than 10% of the Fund's net assets and investment in listed securities of a particular company have also been restricted to 10% of paid-up capital of investee company. Moreover, the sector limits have been restricted to 25% of the net assets of the Fund.

In case of 5% increase/ decrease in KSE 100 index on June 30, 2011, other components of equity would increase/ decrease by Rs. 48.78 million (2010: Rs. 97.293 million ) as a result of gains / losses on equity securities classified as available for sale.

The analysis is based on the assumption that the equity index had increased / decreased by 5% with all other variables held constant and all the Fund's equity instruments moved according to the 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 the index. The composition of the Fund's investment portfolio and the correlation thereof to the KSE index, is expected to change over time. Accordingly, the sensitivity analysis prepared as of June 30, 2011 is not necessarily indicative of the effect on the Fund's net assets of future movements in the level of KSE 100 index.

**22.2 Credit risk**

Credit risk represents the risk of loss if counterparties fail to perform as contracted. The Fund is exposed to counter party credit risks on Investment in equity securities balances with banks, profit and other receivable. The credit risk on the fund is limited because the counterparties are financial institutions with reasonably high credit ratings.

The Fund has adopted a policy of only dealing with creditworthy counterparties, and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. This information is supplied by independent rating agencies, where available, and if not available, the Fund uses other publicly available financial information and its own trading records to rate its major customers. The Fund's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties.

Credit risk from balances with banks and financial institutions is managed by financial department in accordance with the Fund's policy. Investments of surplus funds are made only with approved counterparties and within credit limits assigned to each counterparty. Counterparty credit limits are approved by the Board of Directors. The limits are set to minimise the concentration of risk and therefore mitigate financial loss through potential counterparty failure.

The Fund's maximum exposure to credit risk related to receivables at June 30, 2011 and June 30, 2010 is the carrying amounts of following financial assets.

| | 2011 | 2010 |
|---|---|---|
| | (Rupees in ‘000) | |
| Balances with banks | **42,757** | 38,860 |
| Investments | **577,894** | 2,379,527 |
| Receivable against sale of investments | **4,872** | 127,266 |
| Dividend and profit receivable | **4,073** | 2,197 |
| Advance, deposits and other receivables | **3,122** | 3,096 |
| | **632,718** | 2,550,946 |

The analysis below summaries the credit rating quality of the Fund's financial assets as at June 30, 2011 and June 30, 2010:

| | 2011 | 2010 |
|---|---|---|
| **Bank Balances by rating category** | | |
| Allied Bank Limited | **AA** | AA |
| Summit Bank Limited | **A** | AA |
| Bank AL Habib Limited | **AA+** | AA+ |
| **Bank Balances by rating category** | | |
| Bank of Punjab | **AA-** | AA- |
| Bank Alfalah Limited | **AA** | AA |
| Faysal Bank Limited | **AA** | AA |
| Habib Metropolitan Bank Limited | **AA+** | AA+ |
| Soneri Bank Limited | **AA-** | AA- |
| Standard Chartered Bank Limited | **AAA** | AAA |
| KASB Bank Limited | **A-** | A- |

The maximum exposure to credit risk before any credit enhancement as at June 30, 2011 is the carrying amount of the financial assets. None of these assets are impaired nor past due.

**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.

**22.3 Liquidity risk**

Liquidity risk is the risk that the Fund may encounter difficulty in raising funds to meet its obligations and commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset at close to its fair value. The Management Company manages liquidity risk by continuously analyzing the maturities of financial assets and financial liabilities.

The table below analyses the Funds' 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.

| | ---------------------------- June 30, 2011---------------------------- | | | |
|---|---|---|---|---|
| | Up to three months | Over three months and up to one year | Over one year | Total |
| | --------------------Rupees in '000-------------------- | | | |
| **Liabilities** | | | | |
| Payable to Management Company | **1,124** | - | - | **1,124** |
| Payable to Central Depository Company of Pakistan Limited - Trustee | **113** | - | - | **113** |
| Payable to Securities and Exchange Commission of Pakistan | **1,485** | - | - | **1,485** |
| Unclaimed dividend | **12,654** | - | - | **12,654** |
| Accrued expenses and other liabilities | **8,867** | **233** | - | **9,100** |
| | **24,243** | **233** | - | **24,476** |

| | ---------------------------- June 30, 2010---------------------------- | | | |
|---|---|---|---|---|
| | Up to three months | Over three months and up to one year | Over one year | Total |
| | --------------------Rupees in '000-------------------- | | | |
| **Liabilities** | | | | |
| Payable to Management Company | 4,228 | - | - | 4,228 |
| Payable to Central Depository Company of Pakistan Limited - Trustee | 231 | - | - | 231 |
| Payable to Securities and Exchange Commission of Pakistan | 2,477 | - | - | 2,477 |
| Unclaimed dividend | 11,307 | - | - | 11,307 |
| Accrued expenses and other liabilities | 1,532 | - | - | 1,532 |
| | 19,775 | - | - | 19,775 |

**22.4 Financial instruments by category**

| | ---------------------------- June 30, 2011---------------------------- | | | |
|---|---|---|---|---|
| | Loans and receivables | At fair value through profit or loss | Available for sale investments | Total |
| | --------------------Rupees in '000-------------------- | | | |
| **Assets** | | | | |
| Balances with banks | **42,757** | - | - | **42,757** |
| Investments | - | **571,670** | **6,224** | **577,894** |
| Receivable against sale of investments | **4,872** | - | - | **4,872** |
| Dividend and profit receivable | **4,073** | - | - | **4,073** |
| Deposits and other receivables | **2,951** | - | - | **2,951** |
| | **54,653** | **571,670** | **6,224** | **632,547** |

| | June 30, 2011 | | |
|---|---|---|---|
| | Laibilities at fair value through profit or loss | Other financial liabilities | Total |
| | Rupees in '000 | | |
| **Liabilities** | | | |
| Payable to Management Company | - | **1124** | **1124** |
| Payable to Central Depository Company of Pakistan Limited - Trustee | - | **113** | **113** |
| Payable to Securities and Exchange Commission of Pakistan | - | **1485** | **1485** |
| Unclaimed dividend | - | **12654** | **12654** |
| Accrued expenses and other liabilities | - | **9100** | **9100** |
| | - | **24,476** | **24,476** |

| | June 30, 2010 | | | |
|---|---|---|---|---|
| | Loans and receivables | At fair value through profit or loss | Available for sale investments | Total |
| | Rupees in '000 | | | |
| **Assets** | | | | |
| Balances with banks | 38,860 | - | - | 38,860 |
| Investments | - | 2,273,303 | 106,224 | 2,379,527 |
| Receivable against sale of investments | 127,266 | - | - | 127,266 |
| Dividend and profit receivable | 2,197 | - | - | 2,197 |
| Deposits and other receivables | 2,925 | - | - | 2,925 |
| | 171,248 | 2,273,303 | 106,224 | 2,550,775 |

| | June 30, 2010 | | |
|---|---|---|---|
| | Laibilities at fair value through profit or loss | Other financial liabilities | Total |
| | Rupees in '000 | | |
| **Liabilities** | | | |
| Payable to Management Company | - | 4,228 | 4,228 |
| Payable to Central Depository Company of Pakistan Limited - Trustee | - | 231 | 231 |
| Payable to Securities and Exchange Commission of Pakistan | - | 2,477 | 2,477 |
| Unclaimed dividend | - | 11,307 | 11,307 |
| Accrued expenses and other liabilities | - | 1,532 | 1,532 |
| | - | 19,775 | 19,775 |

**22.5 Fair value of financial assets and liabilities**

The carrying value of all financial assets and liabilities reflected in the financial statements approximate their fair values.

### 22.6 Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

**Level 1:** quoted prices (unadjusted) in active markets for identical assets or liabilities.

**Level 2:** inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices)

**Level 3:** inputs for the assets or liability that are not based on observable market data (that is, unobservable inputs).

| | 30 June 2011 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| | ----------------------------(Rupees in '000)---------------------------- | | | |
| Investment in equity securities | | | | |
| - at fair value through profit or loss | **571,670** | - | - | **571,670** |
| Investment in equity securities - available for sale | **6,224** | - | - | **6,224** |
| | **577,894** | - | - | **577,894** |

### 23. CAPITAL RISK MANAGEMENT

As reflected in note 2 of the financial statements. On with effect from November 11, 2010 the fund was converted in to an open end fund. After conversion the Fund's capital is represented by redeemable units of the Funds. They are entitled to payment of a proportionate share based on the Fund's net asset value per unit on the redemption date. Major redemption were called after coversion of the Fund the relevant movements are shown on the statement of movement in unit holder's fund . In accordance with the risk management policies stated in note 22, the Fund endeavours to invest the subscriptions received in appropriate investments while maintaining sufficient liquidity to meet redemption. Since the Unit Holders of the Fund are invested with a long term objective, possibility of a significant redemption pressure is limited, such liquidity being augmented (by disposal of investments or short-term borrowings where necessary). During the year no such borrowing was exercised.

### 24. NON-ADJUSTING EVENT AFTER THE BALANCE SHEET DATE

The Board of Directors of the Management Company in its meeting held on July 05, 2011 has proposed a final bonus distribution in respect of the year ended June 30, 2011 of Rs 0.4035 per unit (2010: Rs. 1.1534 per certificate) amounting to Rs. 28.253 million. The financial statements for the year ended June 30, 2011 do not include the effect of this appropriation which will be accounted for in the following financial year.

### 25. DATE OF AUTHORIZATION OF ISSUE

These financial statements were authorised for issue on September 20, 2011 by the Board of Directors of the Management Company.

### 26. GENERAL

Figures have been rounded off to the nearest thousand Rupees.

**For Arif Habib Investments Limited**
**(Mangement Company)**

Chief Executive Director

# PAKISTAN STRATEGIC ALLOCATION FUND
# PATTERN OF HOLDING AS PER REQUIREMENT OF CODE OF CORPORATE GOVERNANCE
# AS AT JUNE 30, 2011

| Catergory | No. of Unit Holders | Units |
|---|---|---|
| **Associated Company, Undertakings, and Related Parties** | | |
| Nishat Mills Limited | 1 | 500,000 |
| **Banks, Development Finance Institutions, Non-Banking Finance Institutions, Insurance, Insurance Companies, Modarbas and Mutual Funds.** | 18 | 14,901,055 |
| **Trust** | 21 | 3,135,000 |
| **Corporate** | 29 | 6,510,056 |
| **Individuals** | 1,797 | 41,004,618 |
| **Others** | 11 | 3,969,134 |
| | **1,877** | **70,019,863** |

# PAKISTAN STRATEGIC ALLOCATION FUND
# PATTERN OF UNIT HOLDING (SIZE)
# AS AT JUNE 30, 2011

| No. of Unit Holders | Units Holdings | Total Units Held |
|---|---|---|
| 1,436 | 1 - 10000 | 4,554,853 |
| 358 | 10001 - 100000 | 12,788,339 |
| 74 | 100001 - 1000000 | 21,712,170 |
| 9 | 1000001 - onwards | 30,964,501 |
| **1,877** | | **70,019,863** |

# PAKISTAN STRATEGIC ALLOCATION FUND
# PERFORMANCE TABLE

| Performance Information | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 | 2005 |
|---|---|---|---|---|---|---|---|
| | | | | (Rupees) | | | |
| Net Assets | 608,242 | 2,531,171 | 2,136,566 | 3,216,077 | 4,080,334 | 3,989,330 | 3,651,951 |
| Net Income / (loss) | 114,294 | 334,453 | (934,075) | (73,666) | 803,401 | 855,120 | 918,640 |
| | | | | Announcement Date of Distribution | | | |
| Interim | - | - | - | - | - | - | February 10, 2005 |
| Final | July 4, 2010 | August 3, 2010 | - | July 25, 2008 | July 21, 2007 | July 22, 2006 | July 30, 2005 |
| | | | | (Percentage) | | | |
| Total return of the Fund | 19.10 | 18.54 | (27.35) | (1.80) | 24.78 | 23.38 | 31.86 |
| Dividend distribution - interim (%) | | - | - | - | - | - | 10.00 |
| Dividend distribution - final (%) | 4.04 | 11.534 | - | 7.000 | 25.000 | 25.000 | 15.000 |
| Capital growth | 13.56 | 2.39 | (27.35) | (8.21) | 1.85 | 0.19 | 6.86 |
| Average return of the fund (CAGR) | | | | | | | |
| One Year | 19.10 | 15.85 | (27.35) | (1.80) | 24.78 | 23.38 | - |
| Two Year | 41.20 | (7.20) | (15.55) | 10.68 | 24.12 | - | - |
| Three Year (Since inception) | 2.50 | (5.44) | (3.81) | 14.76 | - | - | - |
| | | | | (Rupees in '000) | | | |
| Net assets value per certificate | 8.69 | 8.44 | 7.12 | 10.72 | 13.60 | 13.30 | 12.17 |
| Earnings per certificate -basic and diluted | N/a | 1.28 | (3.11) | (0.25) | 2.68 | 2.85 | 3.06 |
| Interim distribution per certificate | - | - | - | - | - | - | 1.00 |
| Final distribution per unit / certificate | 0.40 | 1.1534 | - | 0.70 | 2.50 | 2.50 | 1.50 |
| Total distribution per unit / certificate | 0.40 | 1.1534 | - | 0.70 | 2.50 | 2.50 | 2.50 |

**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.