



NAFA GOVERNMENT SECURITIES LIQUID FUND

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NAFA GOVERNMENT SECURITIES LIQUID FUND

DIRECTORS' REPORT

The Board of Directors of National Fullerton Asset Management Limited is pleased to present the First Annual Report of NAFA Government Securities Liquid Fund for the period from April 28, 2009 to June 30, 2009.

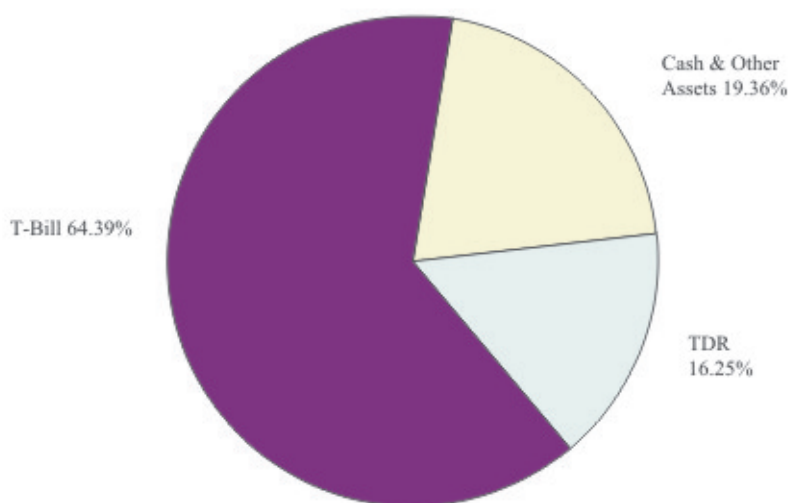
Fund's Performance

NAFA Government Securities Liquid Fund commenced its investments activity on May 18, 2009 with an initial fund size of Rs.807.86 million. During this period, Unit Price of the Fund has increased from Rs.10 to Rs.10.1425 on June 30, 2009, thus showing an annualized return of 11.88%. The performance of the Fund is compared against that of a benchmark (70% 3-Month T-Bills & 30% average 3-months deposit rate of 'AA' & above rated banks). The benchmark has recorded an annualized increase of 12.58% during the same period.

NAFA Government Securities Liquid Fund has earned a total income of Rs.23.12 million during the year. After deducting total expenses of Rs.3.23 million, the net income is Rs.19.89 million.

The asset allocation of NAFA Government Securities Liquid Fund as on June 30, 2009 is as follows:

Asset Allocation as on June 30, 2009



NAFA GOVERNMENT SECURITIES LIQUID FUND

Income Distribution

The Board of Directors of the Management Company has also approved a final distribution of 1.40%. After final distribution, the net asset value per unit will be Rs.10.0025 on June 30, 2009.

Taxation

As the above distribution is more than 90% of the income earned during the year, excluding realized and unrealized capital gains on investments, the Fund is not subject to tax under Clause 99 of the Part I of the Second Schedule of the Income Tax Ordinance, 2001.

Auditors

The present auditors, Messrs A. F. Ferguson & Co., Chartered Accountants, retire and, being eligible, offer themselves for re-appointment.

Directors' Statement in Compliance with Code of Corporate Governance

1. The financial statements, prepared by the management company of NAFA Government Securities Liquid Fund, present fairly the state of affairs of the Fund, the result of its operations, cash flows and statement of movement in unit holders' funds.
2. Proper books of account of NAFA Government Securities Liquid Fund have been maintained.
3. Appropriate accounting policies have been consistently applied in preparation of financial statements. Accounting estimates are based on reasonable and prudent judgment.
4. International Accounting Standards, as applicable in Pakistan, have been followed in preparation of financial statements.
5. The system of internal control is sound in design and has been effectively implemented and monitored.
6. There are no significant doubts upon NAFA Government Securities Liquid Fund's ability to continue as a going concern.
7. There has been no material departure from the best practices of Corporate Governance, as detailed in the listing regulations.
8. A performance table/ key financial data is given in this annual report.
9. Outstanding statutory payments on account of taxes, duties, levies and charges, if any, have been fully disclosed in the financial statements.
10. During the period from April 29, 2009 to June 30, 2009 no meeting of the Board of Directors was held.
11. The detailed pattern of unit holding is disclosed in the note 24 to these financial statements.
12. All trades in the units of the Fund, carried out by directors, CEO, CFO, Company Secretary and their spouses and minor children are disclosed in note 21 to these financial statements.

NAFA GOVERNMENT SECURITIES LIQUID FUND

Acknowledgement

The Board takes this opportunity to thank its valued unit-holders for their confidence and trust in the Management Company, and providing the opportunity to serve them. It also offers its sincere gratitude to the Securities & Exchange Commission of Pakistan and State Bank of Pakistan for their patronage and guidance.

The Board also wishes to place on record its appreciation for the hard work, dedication and commitment shown by the staff and the Trustee.

On behalf of the Board of
National Fullerton Asset Management Limited

Masood Karim Shaikh, FCA
Chairman

Dr. Amjad Waheed, CFA
Chief Executive

Date: August 31, 2009
Place: Karachi.

NAFA GOVERNMENT SECURITIES LIQUID FUND

TRUSTEE REPORT TO THE UNIT HOLDERS

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

NAFA Government Securities Liquid Fund (the Fund), an open-end scheme was established under a trust deed dated April 10, 2009, executed between National Fullerton Asset Management Limited, as the management company and Central Depository Company of Pakistan Limited, as the trustee.

In our opinion, the management company has in all material respects managed the Fund during the period from April 29, 2009 to June 30, 2009 in accordance with the provisions of the following:

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

Kamran Qazi

Chief Financial Officer & Company Secretary
Central Depository Company of Pakistan Limited

Karachi, October 7, 2009

NAFA GOVERNMENT SECURITIES LIQUID FUND

STATEMENT OF COMPLIANCE WITH THE BEST PRACTICES OF CODE OF CORPORATE GOVERNANCE FOR THE PERIOD FROM APRIL 29, 2009 TO JUNE 30, 2009

This statement is being presented to comply with the Code of Corporate Governance contained in Regulation No. 35 of Listing Regulations of the Lahore Stock Exchange for the purpose of establishing a framework of good Governance, whereby a listed Company is managed in compliance with the best practice of corporate governance.

NAFA Government Securities Liquid Fund (the Fund) is an open end mutual fund and is listed at the Lahore Stock Exchange. The Fund, being a unit trust scheme, does not have its own Board. The Board of Directors of the Management Company manages the affairs of the Fund and has appointed the Chief Executive Officer (CEO), Chief Financial Officer (CFO) and the Company Secretary of NAFA and other necessary personnel to manage its affairs.

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. At present the Board consist seven directors including six independent non-executive directors. The Management Company is not listed on any stock exchange and therefore does not have minority interest.
2. The directors have confirmed that none of them is serving as a director in more than ten listed companies.
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 NBF1 or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. During the period no casual vacancy was occurred in the Board.
5. The Management Company has adopted a "Code of Business Ethics and Business Practices", which has been acknowledged by all the directors and distributed to employees of the Management Company.
6. The Board has developed a vision/mission statement overall corporate strategy and significant policies of the Fund. A complete record of the particulars 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 CEO, have been taken by the Board.
8. The meetings of the Board were presided over by the Chairman and the Board met at least once in every quarter during the year. Written notices of the Board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meeting were appropriately recorded and circulated.

NAFA GOVERNMENT SECURITIES LIQUID FUND

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 if any, 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. All the members of Board are well aware of operations of the Fund and Management Company, therefore no orientation courses were arranged during the year.
11. The Board has approved the appointment of Head of Internal Audit and his terms of employment.
12. Directors' Report has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.
13. The financial statements of the Fund were duly endorsed by CEO and CFO before approval of the Board.
14. The Directors, CEO and Executives do not hold units of the Fund other than those disclosed in note 21 to the financial statements "Transactions with Connected Persons".
15. The Management Company has complied with the corporate and financial reporting requirements of the Code with respect to the Fund.
16. The Board has formed an Audit Committee. It comprises three members, all of whom are non-executive directors including the chairman of the Committee.
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 as required by the Code. Terms of Reference of the Audit Committee have been prepared and advised to the Committee for compliance.
18. There exists an effective internal audit function within the Management Company. The Management Company has appointed the Head of Internal Audit, who is considered suitably qualified and experienced for the purpose and are conversant with the policies and procedures of the Fund.
19. The Statutory Auditors of the Fund have confirmed that they have been given a satisfactory rating under the quality control review program of the Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouse and minor children do not hold units of the Fund and that the firm and all its partners are in compliance with the International Federation of Accountants (IFAC) guidelines on Code of Ethics as adopted by the Institute of Chartered Accountants of Pakistan.
20. The Statutory Auditors or the persons associated with them have not been appointed to provide other services except in accordance with the Listing Regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.

NAFA GOVERNMENT SECURITIES LIQUID FUND

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

Dated: August 31, 2009
Karachi

Dr. Amjad Waheed, CFA
Chief Executive Officer

NAFA GOVERNMENT SECURITIES LIQUID FUND

FUND MANAGER REPORT

NAFA Government Securities Liquid Fund

NAFA Government Securities Liquid Fund is an open-end Money Market Fund.

Investment Objective of the Fund

The objective of NAFA Government Securities Liquid Fund is to generate optimal return with minimum risk, to provide easy liquidity and reasonable income to its unit holders by investing primarily in short-term Government Securities.

Benchmark

70% 3-Month T-Bills and 30% average 3-Months deposit rates of AA and above rated banks.

Fund's Performance Review

This is the first Annual report since the launch of the Fund on May 16, 2009. The Fund size as on June 30, 2009 is Rs. 1.4 billion. The Fund's annualized return since inception is 11.88%. During the same period the benchmark return has been 12.58%.

The NAFA Government Securities Liquid Fund with a AA+ (f) stability rating is among the highest rated funds in the industry. NGSLF's mandate is to remain invested in short-term Government Securities. At least 70% of its net assets will be invested in T-Bills. The remaining allocation will be in banks/ DFIs rated 'AA' and above.

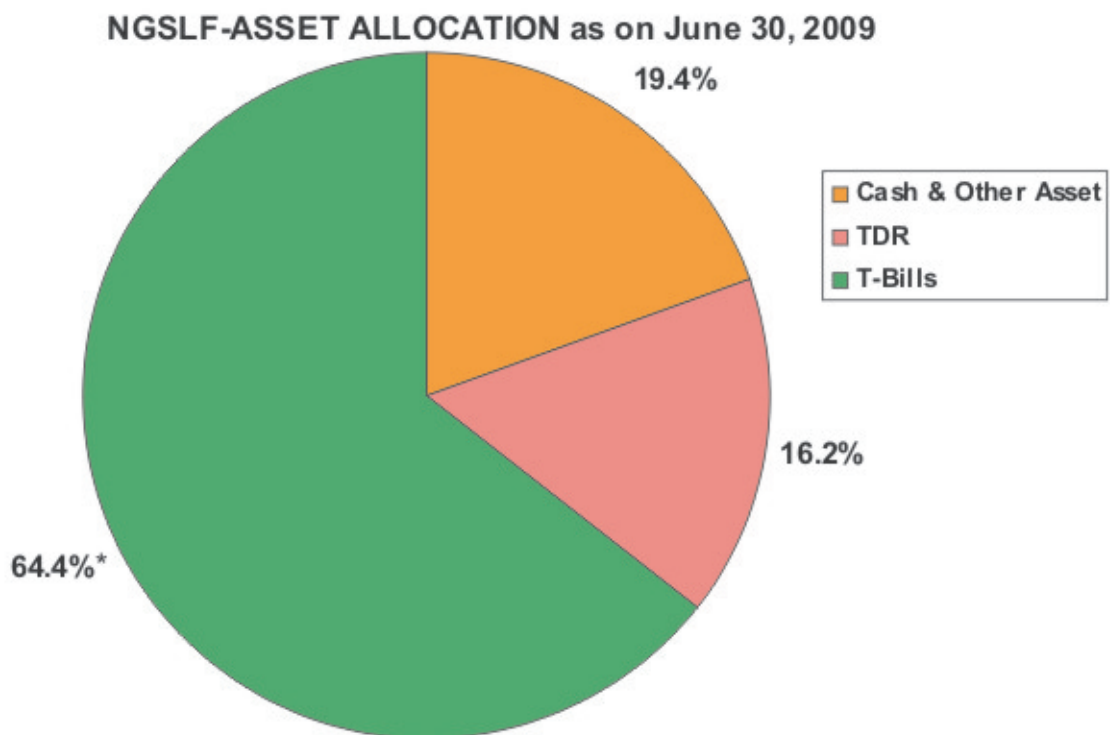
The Fiscal Year 2009 that ended on June 30, 2009 was a turbulent year for the capital markets, both equity and debt. The real GDP growth was only 2.0% in FY 2009 as against average of more than 6% from FY 2003 to FY 2008. Pakistan's economy experienced rising current account deficit due to high international commodity prices, political uncertainty, outflow of foreign portfolio investments, high fiscal deficit and declining import cover. Year on Year (YoY) headline inflation peaked at 25.3% in August 2008. At the same time local banking system witnessed a severe liquidity crunch, with overnight call rates rising in excess of 20% p.a. Subsequent to this, SBP announced gradual reduction in CRR to 5% from 9% and exemption of time deposits of more than one year from SLR in order to ease pressure on the banking system and inject liquidity in the capital markets. These measures eased the banking sector liquidity by more than Rs. 250 billion over a three months period in October to December

As the economic situation improved from January onwards, money market rates have started to decline. Improved Current Account deficit has resulted in improved liquidity situation in the market. Declining inflation has also enabled a gradual downward shift in interest rates. The FY 2009 started with Discount Rate of 12% p.a. and ended with Discount Rate of 14% p.a. after reaching 15% p.a. in November. We expect Discount Rate to gradually decline during the FY 2010 due to declining inflation and enhanced liquidity due to expected foreign inflows from USA and other Friends of Pakistan. However, the timely materialization of these announced inflows remain a critical issue. Also, expected rise in electricity prices may curtail the decline in inflation.

NAFA GOVERNMENT SECURITIES LIQUID FUND

T-Bills are the major asset class of NGSLF. These are very liquid instruments, therefore the liquidity risk of the Fund is very low. The quality of liquidity of the Fund is also very high due to (i) maximum maturity of six months for any instrument in the Fund; (ii) the Fund's weighted average maturity cannot exceed 90 days as per the regulations and its policy. The Fund also has a very low interest rate risk due to its short duration. Moreover, NGSLF, being a Money Market Fund, cannot invest in TFCs (corporate bonds), CFS and RFS (stocks related spread transactions) thereby eliminating risks associated with these investment avenues.

The asset allocation of the Fund on June 30, 2009 is as follows:



* T-Bills weight declined on June 30 due to sale received on June 30, 2009.

The Board of Directors of Management Company has approved a final distribution of 1.40%. The Net Asset Value before declaration was 10.1425, which on ex-NAV basis became 10.0025.

During the period there has been no significant change in the state of affairs of the Fund. NAFA Government Securities Liquid Fund does not have any soft commission arrangement with any broker in the industry.

NAFA GOVERNMENT SECURITIES LIQUID FUND

Following is the unit holder pattern of NAFA Government Securities Liquid Fund by the size of unit holdings as of June 30, 2009.

Size of Unit holding (Units)	# of Unit Holders
0 upto 1000	107
1,001-5,000	92
5,001-10,000	48
10,001-50,000	112
50,001-100,000	27
100,001-500,000	28
500,001-1,000,000	12
1,000,001-5,000,000	15
5,000,001-10,000,000	4
10,000,001-100,000,000	3
100,000,001-1,000,000,000	0

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NAFA GOVERNMENT SECURITIES LIQUID FUND

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

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 **National Fullerton Asset Management Limited** (the Management Company) of **NAFA Government Securities Liquid Fund** to comply with the Listing Regulation No. 35 (Chapter XI) of Lahore 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 the 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.

Sub-Regulation (xiii a) of Listing Regulation 35 notified by The Lahore Stock Exchange (Guarantee) Limited requires the company to place before the Board of Directors for their consideration and approval related party transactions distinguishing between transactions carried out on terms 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. Further, all such transactions are also required to be separately placed before the audit committee. We are only required and have ensured compliance of the above requirements to the extent of approval of related party transactions by the Board of Directors and placement of such transactions 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 period from April 29, 2009 to June 30, 2009.

A.F. Ferguson & Co.
Chartered Accountants
Karachi

Dated: 14 September 2009

NAFA GOVERNMENT SECURITIES LIQUID FUND

INDEPENDENT AUDITORS' REPORT TO THE UNIT HOLDERS

We have audited the accompanying financial statements of **NAFA Government Securities Liquid Fund**, which comprise the statement of assets and liabilities as at June 30, 2009, and the related income statement, statement of comprehensive income distribution statement, cash flow statement and statement of movement in unit holders' funds for the period from April 29, 2009 to June 30, 2009 and a summary of significant accounting policies and other explanatory notes.

Management Company's responsibility for the financial statements

The Management Company of the Fund is responsible for the preparation and fair presentation of these financial statements in accordance with 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.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the 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 misstatements.

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 entity'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 entity'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, 2009 and of its financial performance, cash flows and transactions for the period from April 29, 2009 to June 30, 2009 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.

A.F. Ferguson & Co.

Chartered Accountants

Engagement Partner: **Rashid A. Jafer**

Dated: 14 September 2009

Karachi

NAFA GOVERNMENT SECURITIES LIQUID FUND

STATEMENT OF ASSETS AND LIABILITIES AS AT JUNE 30, 2009

	Note	2009 Rupees in '000
Assets		
Balances with banks	4	275,045
Investments	5	911,177
Loans and receivables	6	230,000
Profit receivable	7	4,455
Prepayments and other receivables	8	1,185
Preliminary expenses and floatation costs	9	4,832
Total assets		1,426,694
Liabilities		
Payable to National Fullerton Asset Management Limited - Management Company	10	6,893
Payable to Central Depository Company of Pakistan Limited - Trustee	11	144
Payable to Securities and Exchange Commission of Pakistan	12	114
Payable on redemption of units		3,964
Accrued expenses and other liabilities	13	347
Total liabilities		11,462
Net Assets		1,415,232
Unit Holders' Funds (as per statement attached)		1,415,232
Contingencies and Commitments	14	
		Number of units
Number of units in issue		139,534,290
		Rupees
Net asset value per unit	15	10.1425

The annexed notes 1 to 31 form an integral part of these financial statements.

For National Fullerton Asset Management Limited
(Management Company)

Dr. Amjad Waheed, CFA
Chief Executive

Masood Karim Shaikh, FCA
Chairman

NAFA GOVERNMENT SECURITIES LIQUID FUND

INCOME STATEMENT FOR THE PERIOD FROM APRIL 29, 2009 TO JUNE 30, 2009

	Note	For the period from April 29, 2009 to June 30, 2009 Rupees in '000
INCOME		
Gain on sale of investments - net		56
Income from treasury bills		12,934
Income from term deposit receipts		2,904
Profit on bank deposits	16	4,295
Unrealised loss on investments at fair value through profit or loss - net		(162)
Total Income		<u>20,027</u>
EXPENSES		
Remuneration of National Fullerton Asset Management Limited – Management Company		2,277
Remuneration of Central Depository Company of Pakistan Limited - Trustee		206
Annual fee - Securities and Exchange Commission of Pakistan		114
Securities transaction cost		130
Bank charges		55
Annual listing fee		25
Auditors' remuneration	17	185
Amortisation of preliminary expenses and floatation costs	9	125
Other charges		108
Total Expenses		<u>3,225</u>
Net income from operating activities		<u>16,802</u>
Element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed		3,087
Net income for the period before taxation		<u>19,889</u>
Taxation	18	-
Net income for the period after taxation		<u>19,889</u>
Earnings per unit	19	

The annexed notes 1 to 31 form an integral part of these financial statements.

For National Fullerton Asset Management Limited
(Management Company)

Dr. Amjad Waheed, CFA
Chief Executive

Masood Karim Shaikh, FCA
Chairman

NAFA GOVERNMENT SECURITIES LIQUID FUND

STATEMENT OF COMPREHENSIVE INCOME FOR THE PERIOD FROM APRIL 29, 2009 TO JUNE 30, 2009

	For the period from April 29, 2009 to June 30, 2009
Note	Rupees in '000
Net income for the period after taxation	19,889
Other comprehensive income	-
Total comprehensive income for the period	<u>19,889</u>

The annexed notes 1 to 31 form an integral part of these financial statements.

For National Fullerton Asset Management Limited
(Management Company)

Dr. Amjad Waheed, CFA
Chief Executive

Masood Karim Shaikh, FCA
Chairman

NAFA GOVERNMENT SECURITIES LIQUID FUND

DISTRIBUTION STATEMENT FOR THE PERIOD FROM APRIL 29, 2009 TO JUNE 30, 2009

For the period
from April 29,
2009, to
June 30, 2009
(Rupees in '000)

Net income for the period	19,889
Undistributed income carried forward	<u>19,889</u>
Undistributed income comprising:	
Realised income	7,936
Unrealised income	11,953
	<u>19,889</u>

The annexed notes 1 to 31 form an integral part of these financial statements.

For National Fullerton Asset Management Limited
(Management Company)

Dr. Amjad Waheed, CFA
Chief Executive

Masood Karim Shaikh, FCA
Chairman

NAFA GOVERNMENT SECURITIES LIQUID FUND

STATEMENT OF MOVEMENT IN UNIT HOLDERS' FUND FOR THE PERIOD FROM APRIL 29, 2009 TO JUNE 30, 2009

	For the period from April 29, 2009, to June 30, 2009 (Rupees in '000)
Issue of 191,301,618 units	1,921,986
Redemption of 51,767,328 units	(523,556)
	1,398,430
Net element of (income) / loss and capital (gains) / losses included in prices of units issued less those in units redeemed	
-amount representing (income) / losses and capital (gains) / losses transferred to Income Statement	(3,087)
	(3,087)
Unrealised loss on investments at fair value through profit or loss - net	(162)
Gain on sale of investments - net	56
Other income (net of expenses)	19,995
	19,889
Net assets at the end of the period	1,415,232

The annexed notes 1 to 31 form an integral part of these financial statements.

For National Fullerton Asset Management Limited
(Management Company)

Dr. Amjad Waheed, CFA
Chief Executive

Masood Karim Shaikh, FCA
Chairman

NAFA GOVERNMENT SECURITIES LIQUID FUND

CASH FLOW STATEMENT FOR THE PERIOD FROM APRIL 29, 2009 TO JUNE 30, 2009

	Note	For the period from April 29, 2009, to June 30, 2009 (Rupees in '000)
CASH FLOW FROM OPERATING ACTIVITIES		
Net income for the period		19,889
Adjustments		
Unrealised loss on investments at fair value through profit or loss - net		162
Amortisation of preliminary expenses and floatation costs		125
Element of (income) / loss and capital (gains) / losses included in prices of units issued less those in units redeemed		(3,087)
		<u>17,089</u>
(Increase) / Decrease in assets		
Investments		(911,339)
Loans and receivables		(230,000)
Profit receivable		(4,455)
Prepayments and other receivables		(1,185)
		<u>(1,146,979)</u>
Increase / (Decrease) in liabilities		
Payable to National Fullerton Asset Management Limited - Management Company		1,936
Payable to Central Depository Company of Pakistan Limited - Trustee		144
Payable to Securities and Exchange Commission of Pakistan		114
Payable on redemption of units		3,964
Accrued expenses and other liabilities		347
		<u>6,505</u>
Net cash outflow on operating activities		<u>(1,123,385)</u>
CASH FLOW FROM FINANCING ACTIVITIES		
Receipts from issue of units		1,921,986
Payments on redemption of units		(523,556)
Net cash inflow from financing activities		<u>1,398,430</u>
Cash and cash equivalents at the end of the period	4	<u><u>275,045</u></u>

The annexed notes 1 to 31 form an integral part of these financial statements.

For National Fullerton Asset Management Limited
(Management Company)

Dr. Amjad Waheed, CFA
Chief Executive

Masood Karim Shaikh, FCA
Chairman

NAFA GOVERNMENT SECURITIES LIQUID FUND

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE PERIOD FROM APRIL 29, 2009 TO JUNE 30, 2009

1 LEGAL STATUS AND NATURE OF BUSINESS

NAFA Government Securities Liquid Fund (NGSLF) was established under a Trust Deed executed between National Fullerton Asset Management Limited (NAFA) as Management Company and Central Depository Company of Pakistan Limited (CDC) as Trustee. The Trust Deed was approved by the Securities and Exchange Commission of Pakistan (SECP) on April 10, 2009 in accordance with the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 (NBFC Rules).

NGSLF is an open-ended mutual fund and is listed on the Lahore Stock Exchange. Units are offered for public subscription on a continuous basis. The units are transferable and can be redeemed by surrendering to the Fund. The units of the Fund were initially offered for public subscription at par from May 11, 2009 to May 15, 2009.

The objective of the Fund is to generate optimal return with minimum risk, to provide easy liquidity and reasonable income to its unit holders by investing primarily in short-term Government Securities.

In accordance with the Trust Deed, the first accounting period of the Fund commenced on the date on which the Trust Property was first paid or transferred to the Trustee. i.e April 29, 2009.

The Pakistan Credit Rating Agency Limited (PACRA) has assigned an asset manager rating of AM2- to the Management Company. The stability rating of the Fund evaluated by PACRA is AA+(f).

2 BASIS OF PREPARATION

2.1 STATEMENT OF COMPLIANCE

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

2.2 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 in application of accounting policies are as follows:

- i) Classification and valuation of investments (note 3.2 and note 5)
- ii) Amortisation of preliminary expenses and floatation cost (note 3.4 and note 9)

2.3 Accounting convention

These financial statements have been prepared under the historical cost convention except that certain investments have been carried at fair value.

NAFA GOVERNMENT SECURITIES LIQUID FUND

2.4 Functional and Presentation Currency

These financial statements are presented in Pak Rupees which is the Fund's functional and presentation currency.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below:

3.1 Cash and cash equivalents

Cash and cash equivalents include demand deposits with banks, other short term highly liquid investments with original maturities of three months or less and bank overdrafts.

3.2 Financial assets

The Fund classifies its financial assets in the following categories: at fair value through profit or loss, available for sale and loans and receivables. 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.

Investments are categorised as follows:

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 prices are classified as held for trading in the 'Financial assets at fair value through profit or loss' category.

b) Available for sale

These are non-derivatives financial assets that are intended to be held for an indefinite period of time which may be sold in response to needs for liquidity or changes in prices.

c) Loans and receivables

These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

3.2.1 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.

3.2.2 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 recognised at fair value and transaction costs are expensed in the income statement.

3.2.3 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 Government Securities

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

3.2.4 Impairment

The carrying value of the Fund's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If such an indication exists, the recoverable amount of such asset is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the income statement.

NAFA GOVERNMENT SECURITIES LIQUID FUND

3.2.5 Derecognition

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

3.2.6 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 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.

3.3 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.

3.4 Preliminary expenses and floatation costs

Preliminary expenses and floatation costs represent expenditure incurred prior to the commencement of operations of the Fund. These costs are being amortised over a period of five years in accordance with the requirements set out in the Trust Deed of the Fund.

3.5 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. Currently, the fund is not charging any sales load (front end load).

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

3.6 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 per unit income 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) that form part of the Unit Holders' 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.

3.7 Provisions

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

3.8 Taxation

Provision for current taxation is based on the taxable income at the current rates of taxation after taking into account tax credits, rebates and exemptions, if any, and is made in accordance with the provisions of the Income Tax Ordinance, 2001.

NAFA GOVERNMENT SECURITIES LIQUID FUND

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 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 avail the tax exemption under clause 99 of Part I of the Second Schedule to the Income Tax Ordinance, 2001, 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.

3.9 Proposed distributions

Distributions declared 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 distributions are declared.

3.10 Revenue recognition

- Capital gains / (losses) arising on sale of investments are included in the Income Statement on the date at which the transaction takes place.
- Income from Term Deposit Receipts is recognised on an accrual basis.
- Unrealised gains / (losses) arising on revaluation 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.
- Profit on bank deposits is recognised on an accrual basis.

3.11 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.

	Note	2009 (Rupees in '000)
4 BALANCES WITH BANKS		
Current accounts		341
Savings accounts		<u>274,704</u>
		<u>275,045</u>
5 INVESTMENTS		
At fair value through profit or loss - held for trading		
Government securities - Market Treasury Bills	5.1	<u>911,177</u>
		<u>911,177</u>

NAFA GOVERNMENT SECURITIES LIQUID FUND

5.1 Investment in government securities - 'At fair value through profit or loss'

Issue date	Tenor	Face value				Balance as at June 30, 2009			Market value as a percentage of net assets	Market value as a percentage of total investments
		As at April 29, 2009	Purchases during the period	Sales / matured during the period	As at June 30, 2009	Cost	Market Value	Appreciation / (Diminution)		
Treasury Bills										
February 12, 2009	6 Month	-	625,000	150,000	475,000	467,834	467,860	26	33.06	51.35
January 29, 2009	6 Month	-	325,000	-	325,000	321,747	321,616	(131)	22.73	35.30
June 18, 2009	6 Month	-	25,000	-	25,000	23,649	23,650	1	1.67	2.60
February 26, 2009	6 Month	-	100,000	-	100,000	98,109	98,051	(58)	6.93	10.75
December 18, 2008	6 Month	-	100,000	100,000	-	-	-	-	-	-
						<u>911,339</u>	<u>911,177</u>	<u>(162)</u>		

Note 2009
(Rupees in '000)

5.2 Net unrealised diminution in value of investments at fair value through profit or loss - net

Market value of investments	911,177
Less: Cost of investments	(911,339)
	<u>(162)</u>

6 LOANS AND RECEIVABLES

Term Deposit Receipts	6.1	<u>230,000</u>
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Name of Bank	Maturity date	Rate	Amount as at June 30, 2009
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Rupees in '000

6.1 Term Deposit Receipts

Allied Bank Limited	21-Nov-09	13.75%	90,000
Bank Alfalah Limited	27-Nov-09	13.65%	90,000
Bank Alfalah Limited	11-Dec-09	13.50%	50,000
			<u>230,000</u>

7 PROFIT RECEIVABLE

Profit on savings deposits	1,551
Profit on term deposit receipts	2,904
	<u>4,455</u>

Note 2009
Rupees in '000

8 PREPAYMENTS AND OTHER RECEIVABLES

Prepaid rating fee	175
Receivable against transfer sales	1,010
	<u>1,185</u>

9 PRELIMINARY EXPENSES AND FLOATATION COSTS

Preliminary expenses and floatation costs incurred	9.1	4,957
Less: amortisation during the period		125
Balance as at June 30, 2009		<u>4,832</u>

NAFA GOVERNMENT SECURITIES LIQUID FUND

- 9.1 Preliminary expenses and floatation costs represent expenditure incurred prior to the commencement of operations of the Fund and are being amortised over a period of five years commencing from May 16, 2009 as per the requirements set out in the Trust Deed of the Fund.

		2009
10	PAYABLE TO NATIONAL FULLERTON ASSET MANAGEMENT LIMITED – MANAGEMENT COMPANY	(Rupees in '000)
	Note	
Management fee	10.1	1,651
Others		5,242
		<u>6,893</u>

- 10.1 Under the provisions of the Non Banking Finance Companies and Notified Entities 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. The Management Company has charged its remuneration at the rate of one and a half percent per annum for the current period. The remuneration is paid on a monthly basis in arrears.

		2009
11	PAYABLE TO CENTRAL DEPOSITORY COMPANY OF PAKISTAN LIMITED - TRUSTEE	(Rupees in '000)
	Note	
Trustee fee	11.1	<u>144</u>

- 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 assets of the Fund.

Based on the Trust Deed, the tariff structure applicable to the Fund as at June 30, 2009 is as follows:

Amount of Funds Under Management (Average NAV)	Tariff per annum
Upto Rs 1,000 million	Rs 0.7 million or 0.15% p.a. of NAV, whichever is higher
On an amount exceeding Rs 1,000 million	Rs 1.5 million plus 0.075% p.a. of NAV exceeding Rs 1,000 million

		2009
12	PAYABLE TO SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN	(Rupees in '000)
	Note	
Annual fee	12.1	<u>114</u>

- 12.1 Under the provisions of the Non Banking Finance Companies and Notified Entities Regulations, 2008 (the NBFC Regulations), a money market fund is required to pay as annual fee to the SECP, an amount equal to 0.075 percent of the average annual net assets of the Fund.

NAFA GOVERNMENT SECURITIES LIQUID FUND

13	ACCRUED EXPENSES AND OTHER LIABILITIES	2009
		(Rupees in '000)
	Auditors' remuneration	185
	Payable to brokers	68
	Bank charges payable	8
	Others	86
		<u>347</u>

14 CONTINGENCIES AND COMMITMENTS

There were no contingencies and commitments outstanding as at June 30, 2009.

15 Net Asset Value per unit

The Net Asset Value 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 period end.

		For the period
		from April 29,
		2009 to June 30,
		2009
16	PROFIT ON BANK DEPOSITS	Rupees In '000
	Income on savings deposits	<u>4,295</u>
17	AUDITORS' REMUNERATION	
	Audit fee	175
	Out of pocket expenses	10
		<u>185</u>

18 TAXATION

The income of the Fund is exempt from income tax under clause 99 of Part I of the Second Schedule to the Income Tax Ordinance, 2001 subject to the condition that not less than 90 percent of its accounting income for the year, as reduced by capital gains, whether realised or unrealised, is distributed amongst the unit holders. The Fund has not recorded a tax liability in respect of income relating to the current period as the management company has decided to distribute at least 90 percent of the Fund's accounting income for the period as reduced by capital gains (whether realised or unrealised) to its unit holders.

19 EARNINGS PER UNIT

Earnings per unit (EPU) for the period from April 29, 2009 to June 30, 2009 has not been disclosed as in the opinion of the management, determination of weighted average units for calculating EPU is not practicable.

NAFA GOVERNMENT SECURITIES LIQUID FUND

20 FINANCIAL INSTRUMENTS BY CATEGORY

	-----As at June 30, 2009-----			
	Loans and receivables	Assets at fair value through profit or loss	Available for sale	Total
	-----Rupees in '000-----			
Assets				
Balances with banks	275,045	-	-	275,045
Investments	-	911,177	-	911,177
Loans and receivables	230,000	-	-	230,000
Profit receivable	4,455	-	-	4,455
Other receivables	1,010	-	-	1,010
	<u>510,510</u>	<u>911,177</u>	<u>-</u>	<u>1,421,687</u>

	-----As at June 30, 2009-----		
	Liabilities at fair value through profit or loss	Other financial liabilities	Total
	-----Rupees in '000-----		
Liabilities			
Payable to National Fullerton Asset Management Limited - Management Company	-	6,893	6,893
Payable to Central Depository Company of Pakistan Limited - Trustee	-	144	144
Payable on redemption of units	-	3,964	3,964
Accrued expenses and other liabilities	-	345	345
	<u>-</u>	<u>11,346</u>	<u>11,346</u>

21 TRANSACTIONS WITH CONNECTED PERSONS

- 21.1** Connected persons include National Fullerton Asset Management Limited being the Management Company, Central Depository Company of Pakistan Limited being Trustee, National Bank of Pakistan, NIB Bank Limited and Alexandra Fund Management Pte. Limited being the sponsors, other collective investment schemes managed by the Management Company and directors and officers of the Management Company.
- 21.2** The transactions with connected persons are in the normal course of business, at contracted rates and terms determined in accordance with market rates.
- 21.3** Remuneration and front-end load payable to the Management Company is determined in accordance with the provisions of the NBFC Regulations and the Trust Deed respectively.
- 21.4** Remuneration payable to the Trustee is determined in accordance with the provisions of the Trust Deed.

**For the period
from April 29,
2009 to June 30,
2009
(Rupees in '000)**

21.5 Details of the transactions with connected persons are as follows:

National Fullerton Asset Management Limited - Management Company	
Management fee expense for the period	2,277
Units Issued (2,290,323 units)	23,000
Units Redeemed (2,290,323 units)	23,110
Preliminary expenses and floatation cost	4,957

NAFA GOVERNMENT SECURITIES LIQUID FUND

	For the period from April 29, 2009 to June 30, 2009 (Rupees in '000)
Central Depository Company of Pakistan Limited - Trustee Remuneration	206
National Bank of Pakistan - Sponsor Investment made by the Sponsor in the Fund (3,000,000 units) Profit paid by the Fund on pre-IPO investment	30,000 109
NIB Bank Limited - Sponsor Investment made by the Sponsor in the Fund (3,000,000 units) Profit paid by the Fund on pre-IPO investment	30,000 118
Alexandra Fund Management Pte. Limited - Sponsor Investment made by the Sponsor in the Fund (4,000,000 units) Profit paid by the Fund on pre-IPO investment	40,000 158
Chief Financial Officer Units Issued / Trasferred In (1,487 units)	15
Employees of the Management Company Units Issued / Trasferred In (402,594 units) Units Redeemed / Transferred Out (57,146 units)	4,053 576
	June 30, 2009
21.6 Amounts outstanding as at period end	(Rupees in '000)
National Fullerton Asset Management Limited - Management Company Management fee payable Others	1,651 5,242
Central Depository Company of Pakistan Limited - Trustee Remuneration payable	144
National Bank of Pakistan - Sponsor Investment held by the Sponsor in the Fund (3,000,000 units) Balance in current account	30,428 341
NIB Bank Limited - Sponsor Investment held by the Sponsor in the Fund (3,000,000 units) Balance in saving account	30,428 303
Alexandra Fund Management Pte. Limited - Sponsor Investment held by the Sponsor in the Fund (4,000,000 units)	40,570
Chief Financial Officer Investment held by the Chief Financial Officer in the Fund (1,487 units)	15
Employees of the Management Company Investment held by the executives in the Fund (345,448 units)	3,504

NAFA GOVERNMENT SECURITIES LIQUID FUND

22 PARTICULARS OF INVESTMENT COMMITTEE AND FUND MANAGER

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

-----2009-----			
	Qualification	Experience in years	
1	Dr. Amjad Waheed	MBA / Doctorate in Business Administration / CFA	21
2	Sajjad Anwar	CFA / MBA Finance	9
3	Rukhsana Narejo	CFA / MBA Banking and Finance	9
4	Ahmed Nouman	EMBA	13
5	Khurram Shehzad	CFA / MBA Finance	11
6	Abdul Rehman Warriach	B.A.-LLB / CFA / Passed FRM Exams	14

22.1 Ms. Rukhsana Narejo is the fund manager of the Fund. She is also the fund manager of NAFA Cash Fund and NAFA Income Fund.

23 BROKERS / DEALERS BY PERCENTAGE OF COMMISSION PAID

2009
%

1	Alfalah Securities (Pvt) Ltd	
2	JS Global Capital Limited	28.36%
3	Invisor Securities (Pvt) Ltd	22.07%
4	Invest Capital And Securities (Pvt) Ltd	17.30%
5	Elixir Securities Pakistan (Pvt) Ltd	12.99%
6	Global Securities Pakistan Limited	9.61%
7	First Capital Securities Corporation Ltd	6.18%
		3.49%
		<u>100.00%</u>

24 PATTERN OF UNIT HOLDING

Pattern of unit holding at June 30, 2009

CATEGORY	As at June 30, 2009		
	Number of unit holders	Investment amount	Percentage Investment
		(Rupees in '000)	
Individuals	406	199,965	14.13%
Associated companies / Directors	3	101,426	7.17%
Insurance companies	3	232,170	16.40%
Banks / DFIs	2	152,138	10.75%
NBFCs	-	-	0.00%
Retirement funds	8	39,199	2.77%
Public Limited companies	17	638,179	45.09%
Others	9	52,155	3.69%
	<u>448</u>	<u>1,415,232</u>	<u>100.00%</u>

NAFA GOVERNMENT SECURITIES LIQUID FUND

25 ATTENDANCE AT MEETINGS OF BOARD OF DIRECTORS

During the period from April 29, 2009 to June 30, 2009 no meeting of the Board of Directors was held.

26 FINANCIAL RISK MANAGEMENT

The Fund is a money market fund which primarily invests in government securities. The Fund's activities expose it to a variety of financial risks: market risk, credit risk and liquidity risk.

26.1 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 the market risk by monitoring exposure on marketable securities by following internal risk management policies and regulations laid down by the Securities and Exchange Commission of Pakistan.

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

26.1.1 Currency risk

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

26.1.2 Yield / Interest rate risk

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

a) Sensitivity analysis for variable rate instruments

Presently, the Fund holds no variable rate instruments and is not exposed to future cash flow risk.

b) Sensitivity analysis for fixed rate instruments

As at June 30, 2009 the Fund holds Treasury Bills which are classified as 'At fair value through profit or loss', exposing the Fund to fair value interest rate risk. In case of 100 basis points increase in rates announced by the Financial Market Association on June 30, 2009, with all other variables held constant, the net income for the period and net assets would be lower by Rs 1,073,377. In case of 100 basis points decrease in rates announced by the Financial Market Association on June 30, 2009, with all other variables held constant, the net income for the period and net assets would be higher by Rs 1,074,776.

The composition of the Fund's investment portfolio and rates announced by Financial Market Association is expected to change over time. Accordingly, the sensitivity analysis prepared as of June 30, 2009 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.

NAFA GOVERNMENT SECURITIES LIQUID FUND

-----As at June 30, 2009-----

Total	--Exposed to yield / interest rate risk--			Not exposed to yield / interest rate risk
	Upto three months	More than three months and upto one year	More than one year	

-----Rupees in '000-----

On-balance sheet financial instruments

Financial Assets

Balances with banks	275,045	274,704	-	-	341
Investments	911,177	911,177	-	-	-
Loans and receivables	230,000	-	230,000	-	-
Profit receivable	4,455	-	-	-	4,455
Other receivables	1,010	-	-	-	1,010
	1,421,687	1,185,881	230,000	-	5,806

Financial Liabilities

Payable to National Fullerton Asset Management Limited - Management company	6,893	-	-	-	6,893
Payable to Central Depository Company of Pakistan Limited - Trustee	144	-	-	-	144
Payable on redemption of units	3,964	-	-	-	3,964
Accrued expenses and other liabilities	345	-	-	-	345
	11,346	-	-	-	11,346

On-balance sheet gap

	1,410,341	1,185,881	230,000	-	(5,540)
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Off-balance sheet financial instruments

	-	-	-	-	-
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Off-balance sheet gap

	-	-	-	-	-
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2009 Percentage per annum

The rates of return on financial instruments are as follows:

Balances with banks	5.00 - 12.00
Term deposit receipts	13.50 - 13.75
Treasury bills	12.39 - 13.26

26.1.3 Price Risk

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest risk or currency risk) whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. Presently, the Fund is not exposed to equity securities price risk as the Fund does not hold any equity securities as at June 30, 2009.

26.2 Credit Risk

Credit risk management

Credit risk represents the risk of a loss if the counter parties fail to perform as contracted. The Fund's credit risk is primarily attributable to its investment in debt securities. The Fund is also exposed to counterparty credit risks on loans and receivables, balances with banks, profit receivable, advances, deposits and prepayments and other receivable. The credit risk on liquid fund is limited because the counter parties are financial institutions with reasonably high credit ratings. In addition, The Fund's policy is to enter into financial instrument contracts by following internal guidelines such as approving counterparties, approving credit, obtaining adequate collateral and transacting through approved brokers.

The analysis below summarises the credit quality of the Fund's bank deposits as at June 30, 2009:

Bank Balances by rating category	2009
A1+	0.0017%
A-1+	99.6545%
A1	0.3438%

NAFA GOVERNMENT SECURITIES LIQUID FUND

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 mainly comprise of government securities and remaining transactions are entered into with diverse creditworthy counterparties thereby mitigating any significant concentration of credit risk to counterparties other than government.

26.3 Liquidity Risk

Liquidity risk is the risk that the Fund may not be able to generate sufficient cash resources to settle its obligation in full as they fall due or can only do so on terms that are materially disadvantageous.

The Fund is exposed to daily cash redemptions at the option of unit holders. The Fund's approach to managing liquidity is to ensure, as far as possible, that the Fund will always have sufficient liquidity to meet its liabilities when due under both normal and stressed conditions, without incurring unacceptable losses or risking damages to the Fund's reputation. Its policy is therefore to invest the majority of its assets in investments that are traded in an active market and can be readily disposed and are considered readily realisable.

The Fund has the ability to borrow in the short term to ensure settlement. The maximum amount available to the Fund from the borrowing would be limited to fifteen percent of the net assets upto 90 days and would be secured by the assets of the Fund. The facility would bear interest at commercial rates.

In order to manage the Fund's overall liquidity, the Fund also has the ability to withhold daily redemption requests in excess of ten percent of the units in issue and such requests would be treated as redemption requests qualifying for being processed on the next business day. Such procedure would continue until the outstanding redemption requests come down to a level below ten percent of the units then in issue. The Fund did not withhold any significant redemptions during the year.

The table below analyses the Fund's 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.

-----As at June 30, 2009-----					
Total	Upto three months	Over three months and upto one year	Over one year		
-----Rupees in '000-----					
Liabilities					
Payable to National Fullerton Asset Management Limited Management company	6,893	2,061	991	3,841	
Payable to Central Depository Company of Pakistan Limited - Trustee	144	144	-	-	
Payable on redemption of units	3,964	3,964	-	-	
Accrued expenses and other liabilities	345	345	-	-	
	11,346	6,514	991	3,841	

NAFA GOVERNMENT SECURITIES LIQUID FUND

27 UNIT HOLDERS' FUND RISK MANAGEMENT

The Unit Holders' Fund is represented by redeemable units. These units are entitled to distributions and to payment of a proportionate share, based on the Fund's net asset value per unit on the redemption date. The relevant movements are shown on the statement of movement in unit holders' fund.

The Asset Management Company has undertaken to invest Rs 50 million for at least two years in compliance with the Regulation 44 (3) (e) (ii) of NBFC Regulations.

The Fund's objectives when managing unit holders' fund are to safeguard its ability to continue as a going concern so that it can continue to provide returns to unit holders and to maintain a strong base of assets under management.

In accordance with the risk management policies stated in note 26, the Fund endeavours to invest the subscriptions received in appropriate investments while maintaining sufficient liquidity to meet redemption, such liquidity being augmented by short-term borrowings or disposal of investments where necessary.

28 FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the amount for which an asset could be exchanged, or liability settled, between knowledgeable willing parties in an arm's length transaction. Consequently, differences can arise between carrying values and the fair value estimates.

Underlying the definition of fair value is the presumption that the Fund is a going concern without any intention or requirement to curtail materially the scale of its operations or to undertake a transaction on adverse terms.

Financial assets which are tradable in an open market are revalued at the market prices prevailing on the balance sheet date. The estimated fair value of all other financial assets and liabilities is considered not significantly different from book values as the items are either short term in nature or periodically repriced.

29 NON-ADJUSTING EVENT AFTER THE BALANCE SHEET DATE

The Board of Directors of the Management Company in their meeting held on July 03, 2009 have proposed a final distribution at the rate of 1.4 percent. The financial statements of the Fund for the period ended June 30, 2009 do not include the effect of the final distribution which will be accounted for in the financial statements of the Fund for the year ending June 30, 2010.

30 DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue by the Board of Directors of the Management Company on August 31, 2009.

31 GENERAL

Figures have been rounded off to the nearest thousand rupees.

For National Fullerton Asset Management Limited
(Management Company)

Dr. Amjad Waheed, CFA
Chief Executive

Masood Karim Shaikh, FCA
Chairman

NAFA GOVERNMENT SECURITIES LIQUID FUND

PERFORMANCE TABLE

PARTICULARS	For the period from April 29, 2009 to June 30, 2009
Net assets at the period end (Rs '000)	1,415,232
Net income for the period end (Rs '000)	19,889
Net Asset Value per unit at the period end (Rs)	10.0025
Offer Price per unit	10.0025
Redemption Price per unit	10.0025
Highest offer price per unit (Rs)	10.0025
Lowest offer price per unit (Rs)	9.8802
Highest redemption price per unit (Rs)	10.0025
Lowest redemption price per unit (Rs)	9.8802
Total return of the fund	1.43%
Capital growth	0.03%
Income distribution	1.40%
Distribution	
Interim distribution per unit	-
Final distribution per unit	0.1400
Distribution Dates	
Interim	-
Final	3-Jul-09
Average annual return of the fund (launch date May 16, 2009) (Since inception to June 30, 2009)	11.88%
Portfolio Composition (Please see Fund Manager Report)	
Weighted average portfolio duration	90 days
Past performance is not necessarily indicative of future performance and that unit prices and investment returns may go down, as well as up	

