

# NAFA Islamic Multi Asset Fund

## MISSION STATEMENT

To rank in the top quartile  
in performance of  
**NAFA FUNDS**  
relative to the competition,  
and to consistently offer  
Superior risk-adjusted returns to investors

# NAFA Islamic Multi Asset Fund

## FUNDS' INFORMATION

### Management Company

NBP Fullerton Asset Management Limited - Management Company  
(Formerly National Fullerton Asset Management Limited)

### Board of Directors of the Management Company

Mr. Qamar Hussain	Chairman
Mr. Shahid Anwar Khan	Director
Mr. Gerard Lee How Cheng	Director
Mr. Patrick Pang Chin Hwang	Director
Mr. Shehryar Farooque	Director
Mr. Kamal Amir Chinoy	Director
Dr. Amjad Waheed	Chief Executive Officer

### Company Secretary & CFO of the Management Company

Mr. Muhammad Murtaza Ali

### Audit & Risk Committee

Mr. Gerard Lee How Cheng	Chairman
Mr. Shahid Anwar Khan	Member
Mr. Shehryar Farooque	Member

### Trustee

Central Depository Company of Pakistan Limited (CDC)  
CDC House, 99-B, Block "B" S.M.C.H.S.,  
Main Shahra-e-Faisal, Karachi.

### Bankers to the Fund

Al-Baraka Islamic Bank  
Allied Bank Limited  
Askari Bank Ltd.  
Bank Alfalah Limited  
Bank Islami Pakistan Limited  
Dawood Islamic Bank  
Emirates Global Islamic Bank Ltd.  
Habib Bank Limited  
Habib Metropolitan Bank Ltd.  
MCB Bank Limited  
Meezan Bank Limited  
National Bank of Pakistan  
NIB Bank Limited  
Soneri Bank Limited  
Standard Chartered Bank(PAK)Ltd.  
The Bank of Khyber  
United Bank Ltd.  
Bank Al Habib Ltd.

# NAFA Islamic Multi Asset Fund

**Auditors**

A.F. Ferguson & Co. Chartered Accountants  
State Life Building No. 1-C  
I.I. Chundrigar Road,  
P.O. Box 4716  
Karachi.

**Legal Advisor**

M/S. Jooma Law Associates  
205, E.I. Lines, Dr. Daudpota Road  
Karachi.

**Head Office**

9th Floor, Adamjee House  
I.I. Chundrigar Road,  
Karachi.

**Lahore Office :**

68-B-1, M.M. Alam Road,  
Gulberg 3, Lahore.  
Uan: 042-111-111-632  
Phone No. 042-35778248-63  
Fax: 042-35876806

**Islamabad Office:**

Plot No. 395, 396 Industrial Area, 1-9/3, Islamabad  
Uan : 051-111-111-632 Phone : 051-2514987  
Fax: 051-4859031

**Peshawar Office:**

1st Floor Haji Tehmas Centre,  
Near KFC, Tehkal Payan  
University Road, Peshwar.  
Phone No. 92-91-5711784, 5711782  
Fax: 92-91-5211780

**Multan Office:**

82 Khan Centre Near SP Chowk  
Abdali Road, Multan Cantt,  
Multan.

# NAFA Islamic Multi Asset Fund

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# NAFA Islamic Multi Asset Fund

## DIRECTORS' REPORT

The Board of Directors of NBP Fullerton Asset Management Limited (formerly: National Fullerton Asset Management Limited) is pleased to present the Third Annual Report of **NAFA Islamic Multi Asset Fund** for the year ended June 30, 2010.

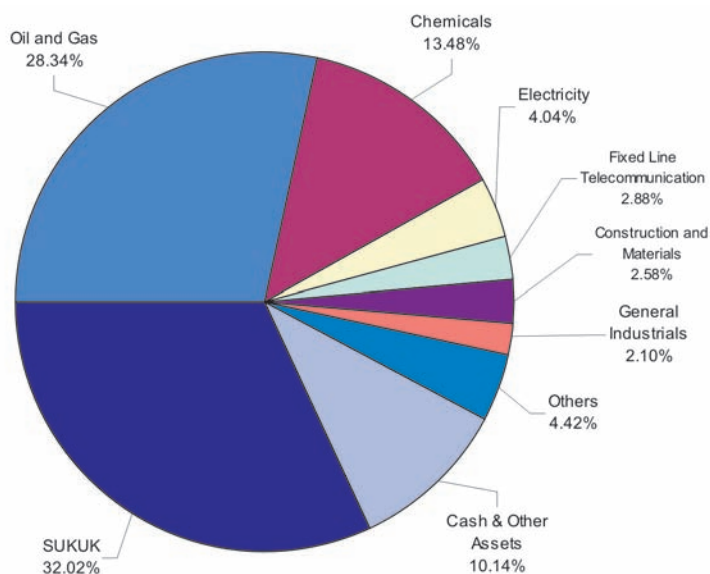
### Fund's Performance

During the FY 2009-10, the share market (KSE-30 Index) rose by 26% from 7,571 points as at June 30, 2009 to 9,557 points as at June 30, 2010. However, investors' interest in the share market remained subdued due to the overall macro-economic conditions and the tight liquidity situation. Higher than normal interest rate and inflation, excessive government borrowing, rising circular debt, widening fiscal deficit and ongoing war on terror has impacted various industrial sectors. Consequently, several Sukuks had to be re-scheduled during the year. The depressed Sukuks prices have resulted in the yield to maturity on the Sukuks portfolio in the Fund rising to an attractive 24.06% per annum.

During the fiscal year, the return on NAFA Islamic Multi Asset Fund was 17.46% as against its benchmark (50% KMI-30 Index, 50% 1-Month Profit Rate of Islamic Banks) return 21.27%. The key factor for the underperformance of the Fund was due to decline in Sukuk portfolio of the Fund as a result of depressed Sukuk prices. Moreover, some of the stock holdings in the Portfolio did not perform in line with the market. However, in the second half of FY 2009-10, the fund has out-performed its benchmark by 3.32%.

NAFA Islamic Multi Asset Fund has earned total income of Rs.84.29 million during the year. After deducting total expenses of Rs.29.87 million, the net income is Rs.54.42 million. During the year, the unit price of NAFA Islamic Multi Asset Fund has increased from Rs.8.5736 on June 30, 2009 to Rs.10.0702 on June 30, 2010. The resultant per unit gain is Re.1.4966.

The asset allocation of NAFA Islamic Multi Asset Fund as on June 30, 2010 is as follows:



# NAFA Islamic Multi Asset Fund

## Income Distribution

The Board of Directors of the Management Company has approved a final distribution of 12.217% of par value and 14.25% of opening ex-NAV. After final distribution, the net asset value per unit will be Rs.8.8485 on June 30, 2010.

## 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 Islamic Multi Asset 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 Islamic Multi Asset 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 Islamic Multi Asset 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. The Board of Directors of the Management Company held five meetings during the current financial year. The attendance of all directors is disclosed in the note 25 to these financial statements.
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 Islamic Multi Asset 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, Trustee and the Shariah and Technical Advisors.

On behalf of the Board of  
NBP Fullerton Asset Management Limited  
(formerly: National Fullerton Asset Management Limited)

Dr. Amjad Waheed, CFA  
Chief Executive

Qamar Hussain  
Chairman

Date: August 25, 2010  
Place: Karachi.

# NAFA Islamic Multi Asset 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 Islamic Multi Asset Fund (the Fund), an open-end scheme was established under a trust deed dated August 20, 2007, 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 year ended June 30, 2010 in accordance with the provisions of the following:

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

**Muhammad Hanif Jakhura**  
Chief Executive Officer  
Central Depository Company of Pakistan Limited  
Karachi. September 06, 2010



# NAFA Islamic Multi Asset Fund

## STATEMENT OF COMPLIANCE WITH THE BEST PRACTICES OF CODE OF CORPORATE GOVERNANCE FOR THE YEAR ENDED JUNE 30, 2010

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 Islamic Multi Asset 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 consists of six non-executive directors including two independent 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 NBFIs or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. Casual vacancies occurred during the year in the Board of the Management Company due to resignation of Syed Naseer ul Hassan and Mr. Raymond H. Kotwal were filled by Mr. Kamal Amir Chinoy and Mr. Shehryar Faruque on May 17, 2010.
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.

# NAFA Islamic Multi Asset Fund

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.
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.

# NAFA Islamic Multi Asset Fund

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

Dated: September 14, 2010  
Karachi

Dr. Amjad Waheed, CFA  
Chief Executive Officer

# NAFA Islamic Multi Asset Fund

## Fund Manager Report

### NAFA Islamic Multi Asset Fund

NAFA Islamic Multi Asset Fund (NIMF) is an open-end Shariah Compliant balanced scheme.

### Investment Objective of the Fund

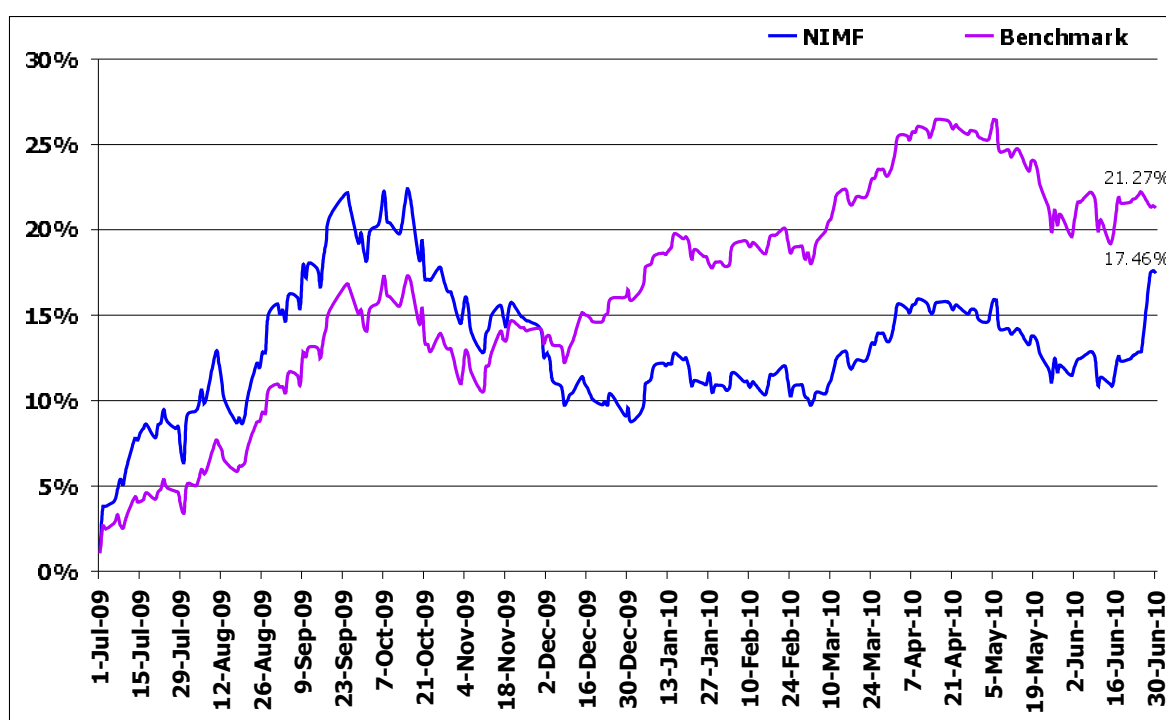
The objective of NIMF is to provide investors with a combination of capital growth and income by investing in Shariah Compliant investments. NIMF aims to achieve attractive returns at moderate levels of risk by investing in a variety of Shariah Compliant securities, instruments and avenues such as Equities, Musharakah, Murabahah, Ijarah etc.

### Benchmark

The Benchmark of the Fund is 50% 1-month profit rate on Islamic Banks and 50% KMI-30 Index.

### Fund performance review

NIMF has met its investment objective. During FY10, Net Asset Value (NAV) of NAFA Islamic Multi Asset Fund (NIMF) increased by 17.46%, whereas the Benchmark increased by 21.27%, thus an under-performance of 3.81% was recorded.



# NAFA Islamic Multi Asset Fund

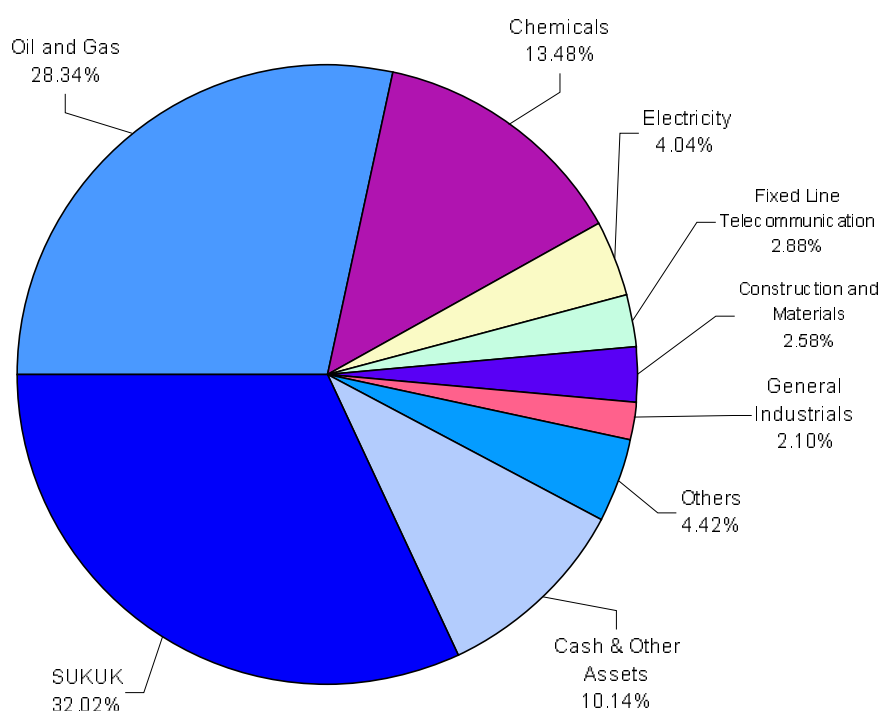
At the start of the year, NIMF was 67.47% invested in equities. During most of the year, NIMF remained either over weight or close to market weight in equities. On a few occasions, NIMF was under weight in equities in response to changing capital market conditions. At the end of the year NIMF was invested in equities at around 58%.

The stock market rebounded during FY10 after dismal performance during FY09. Overall during the year the KMI-30 Index gained by 36.87%. This was contributed by significant foreign portfolio inflows at around US\$568 million, improved corporate earnings growth at 18%, ameliorated GDP growth rate at 4.1%, continuity of the IMF Program and improvement in the external account.

Activity in the Sukuk market remained lackluster throughout the year. The slowdown in construction sector coupled with price wars and overcapacity led to restructuring of two Sukuks in NIMF, namely Maple Leaf Cement Limited Sukuk and Kohat Cement Company Limited Sukuk. Both of these sukuku are now regular on their payments. We have already provided for 25% on Kohat Cement Sukuk and 30% on Maple Leaf Cement Sukuk. During FY10 Eden Housing Limited Sukuk became non-performing. However, subsequent to June 30, 2010 the company made the due payment and the issue has been regularized. The weighted average Yield-to-Maturity of the Sukuk portfolio of NIMF is around 24.06% per annum. Since all of the above Sukuks have been rescheduled, we may see reversal of some of the provisioning in due course of time, which may help increase the NAV per unit of the Fund.

During the period there has been no significant change in the state of affairs of the Fund, other than stated above. During the year there were no circumstances that materially affected any interests of the unit holders. NAFA Islamic Multi Asset Fund does not have any soft commission arrangement with any broker in the industry.

The asset allocation of the Fund as on June 30, 2010 is as follows



# NAFA Islamic Multi Asset Fund

## Income Distribution for the Financial Year 2010

Dividend % of Par Value	Cumulative Dividend Price Per Unit (Rs.)	Ex-Dividend Price Per Unit (Rs.)
12.217%	10.0702	8.8485

Pattern of Unit Holders for NAFA Islamic Multi Asset Fund As on June 30, 2010

Size of Unit holding (Units)		# of Unit Holders
1	1,000	92
1,001	5,000	140
5,001	10,000	68
10,001	50,000	113
50,001	100,000	12
100,001	500,000	6
1,000,001	5,000,000	6
5,000,001	10,000,000	2

**Total:**

**439**

# NAFA Islamic Multi Asset Fund

## Report of the Shariah Advisor NAFA Islamic Multi Asset Fund

Karachi

September 15, 2010/ Shawwal 05, 1431 A.H

Alhamdulillah, the period from July 1, 2009 to June 30, 2010 was the third year of operations of NAFA Islamic Multi Asset Fund (NIMF). This report is being issued in accordance with clause 5.D.2 of the Trust Deed of the Fund. The scope of the report is to express an opinion on the Shar'iah Compliance of the Fund's activity.

In the capacity of *Shar'iah Adviser*, we have prescribed six criteria for Shar'iah compliance of equity investments which relate to (i) Nature of business, (ii) Interest bearing debt to total assets, (iii) Illiquid assets to total assets, (iv) Investment in non-Shar'iah compliant activities to Total assets (v) Shar'iah Non Compliant Income to Gross Revenue and (vi) Net liquid assets per share vs. share price.

It is the responsibility of the management company of the fund to establish and maintain a system of internal controls to ensure Shariah compliance with the Shariah guidelines. Our responsibility is to express an opinion, based on our review, to the extent where such compliance can be objectively verified. 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 prescribed criteria.

- i. We have reviewed and approved the modes of investments of NIMF in light of Shariah requirements. The following is a list of investments of NIMF as on June 30, 2010 and their evaluation according to the screening criteria established by us. (The half year ended December 31, 2009 accounts of the Investee companies have been used for the following calculations):

Company Name	(i) Nature of Business	(ii) Debt to Assets (<40%)	(iii) % of Non-Shar'iah Compliant Investments (<33%)	(iv) Non-Compliant Income to Gross Revenue (<5%)	(v) Illiquid Assets to Total Assets (>20%)	(vi) Net Liquid Assets vs. Share Price (B>A)	
						Net Liquid Assets per Share (A)	Share Price (B)
Attock Cement Pakistan Limited	Cement Manufacturer	0.12%	15.45%	1.14%	74.00%	(3.39)	52.00
Fauji Fertilizer Bin Qasim Limited	Manufacturer of Fertilizer	23.37%	0.00%	2.51%	70.00%	(15.82)	26.13
Fauji Fertilizer Company Limited	Manufacturer of Fertilizer	30.04%	8.93%	1.92%	58.00%	(31.23)	102.93
Hub Power Company Limited**	Electricity	45.78%**	0.00%	3.98%	53%	(20.29)	31.08
Indus Motors Company Limited	Automobile Assembler	0.05%	0.00%	2.43%	44.00%	17.88	196.52
Lotte Pakistan PTA Limited	Chemicals	31.25%	0.00%	1.12%	58%	(3.37)	7.83
Lucky Cement	Cement Manufacturer	25.91%	0.00%	0.00%	94.00%	(37.13)	66.24
Millat Tractors Limited	General Industry	0.03%	23.94%	1.62%	41%	(5.13)	379.80
National Refinery Limited	Oil Refinery	0.00%	1.45%	0.66%	39.00%	(9.90)	176.82

# NAFA Islamic Multi Asset Fund

Company Name	Nature of Business	(ii) Debt to Assets (<40%)	(iii) % of Non-Shar'iah Compliant Investments (<33%)	(iv) Non-Compliant Income to Gross Revenue (<5%)	(v) Illiquid Assets to Total Assets (>20%)	(vi) Net Liquid Assets vs. Share Price (B>A)	
						Net Liquid Assets per Share (A)	Share Price (B)
Oil & Gas Development Company Limited	Exploration and Production of Oil & Gas	0.00%	6.38%	0.81%	50.00%	7.55	110.61
Pak. Telecommunication, Co. Ltd	Provider of Telecommunication Services	9.76%	11.52%	3.22%	75.00%	(9.37)	17.65
Pakistan Oilfields Limited	Exploration and Production of Oil & Gas	0.00%	0.53%	2.33%	79.00%	(8.36)	230.77
Pakistan Petroleum Limited	Exploration and Production of Oil & Gas	0.17%	22.92%	3.24%	42.00%	30.97	189.59
Pakistan State Oil Company Limited	Distribution of Oil	11.27%	0.00%	0.06%	39.00%	(232.69)	297.44
Thal Limited	Manufacturers of Jute bags and Acs and Wire Harness of Cars	17.88%	0.63%	0.20%	83.00%	32.97	84.87
Unilever Pakistan Limited	Food Producer	10.08%	0.89%	0.04%	75.00%	(399.35)	2300

\*\* This scrip become Non Compliant and has disinvested.

In light of the above, we hereby certify that all the provisions of the Scheme and investments in equities made on account of NIMF by NAFA are Shariah compliant and are in accordance with the Shar'iah guidelines issued by the *Shar'iah Advisor* & Shar'iah Technical Services & Support Providers.

- ii. On the basis of information provided by the management, all operations of NIMF for the period ended June 30, 2010 have been in compliance with the Shariah principles.
- iii. There are investments made by NIMF where Investee companies have earned a part of their income from non-compliant sources (e.g. interest income). In such cases, the management company has been directed to set aside as charity such proportion of the income from Investee companies in order to purify the earnings of the Fund.

During the Period a provision of Rupees 329,764 was transferred to Charity account and an amount of Rupees 462,842 was disbursed.

May Allah bless us with best Tawfeeq to accomplish His cherished tasks, make us successful in this world and in the Hereafter, and forgive our mistakes.

Bilal Ahmed Qazi  
Shar'iah Advisor

For and on behalf of Meezan Bank Limited  
Shar'iah Technical Services and Support Provider



# NAFA Islamic Multi Asset Fund

## INDEPENDENT AUDITORS' REPORT ON SHARIAH COMPLIANCE TO THE MANAGEMENT COMPANY

We have audited the compliance of the investments made by the NAFA Islamic Multi Asset Fund with the Shariah guidelines prescribed by the Shariah Advisor and Shariah Technical Services and Support Provider of the Fund for the period from July 1, 2009 to June 30, 2010.

It is the responsibility of the Management Company to appoint a Shariah Advisor and establish and maintain a system of internal control to ensure compliance with the Shariah guidelines advised by the Shariah Advisor and Shariah Technical Services and Support Provider of the Fund. Our responsibility is to carry out procedures to enable us to report on the compliance of investments made by the Fund with the Shariah guidelines, as prescribed by the Shariah Advisor and Shariah Technical Services and Support Provider.

We conducted our audit in accordance with the International Standards on Auditing applicable to compliance auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Fund has complied, in all material respects, with the Shariah guidelines, as prescribed by the Shariah Advisor and Shariah Technical Services and Support Provider. An audit includes examining appropriate evidence on a test basis. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the investments made by the Fund during the period from July 1, 2009 to June 30, 2010 were, in all material respects, in compliance with the shariah compliant avenues as approved by the Shariah Advisor and Shariah Technical Services and Support Provider of the Fund.

A.F. Ferguson & Co.

Chartered Accountants

Karachi

Dated: September 15, 2010

# NAFA Islamic Multi Asset 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 **NBP Fullerton Asset Management Limited** (Formerly National Fullerton Asset Management Limited) (the Management Company) of **NAFA Islamic Multi Asset Fund** to comply with the Listing Regulation No. 35 (Chapter XI) of The 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 No. 35 notified by The Lahore Stock Exchange (Guarantee) Limited requires the Management 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 year ended June 30, 2010.

A.F. Ferguson & Co.  
Chartered Accountants

Dated: September 15, 2010  
Karachi.

# NAFA Islamic Multi Asset Fund

## INDEPENDENT AUDITORS' REPORT TO THE UNIT HOLDERS

We have audited the accompanying financial statements of **NAFA Islamic Multi Asset Fund** which comprise the statement of assets and liabilities as at June 30, 2010, and the related income statement, statement of comprehensive income, distribution statement, cash flow statement and statement of movement in unit holders' funds for the year ended June 30, 2010 and a summary of significant accounting policies and other explanatory notes.

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

The Management Company of the Fund is responsible for the preparation and fair presentation of these financial statements in accordance with the 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 financial position of NAFA Islamic Multi Asset Fund as of June 30, 2010 and of its financial performance and cash flows for the year ended June 30, 2010 in accordance with approved accounting standards as applicable in Pakistan.

### Other matters

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

A.F. Ferguson & Co.  
Chartered Accountants  
Engagement Partner: Rashid A. Jafer  
Dated: September 15, 2010  
Karachi.

# NAFA Islamic Multi Asset Fund

## STATEMENT OF ASSETS AND LIABILITIES AS AT JUNE 30, 2010

	Note	2010	2009
		-----Rupees in '000-----	
<b>ASSETS</b>			
Balances with banks			
Receivable against sale of investments	4	46,367	30,654
Investments		4,550	4,695
Dividend and profit receivable	5	347,868	493,372
Advances, deposits and prepayments	6	3,651	5,468
Preliminary expenses and floatation costs	7	2,661	2,697
<b>Total assets</b>	8	<u>1,160</u>	<u>1,660</u>
		406,257	538,546
<b>LIABILITIES</b>			
Payable to the Management Company	9	1,036	1,413
Payable to the Trustee	10	118	88
Payable to the Securities and Exchange Commission of Pakistan	11	442	485
Payable on redemption of units		15,190	-
Accrued expenses and other liabilities	12	2,359	1,176
<b>Total liabilities</b>		<u>19,145</u>	<u>3,162</u>
<b>NET ASSETS</b>			
		<u>387,112</u>	<u>535,384</u>
<b>Unit Holders' Funds (as per statement attached)</b>		<u>387,112</u>	<u>535,384</u>
<b>Contingencies and Commitments</b>			
	13		
<b>Number of units in issue</b>		<b>Number of units</b>	<b>Number of units</b>
		38,441,455	62,445,372
<b>Net asset value per unit</b>		<b>Rupees</b>	<b>Rupees</b>
	14	<u>10.0702</u>	<u>8.5736</u>

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

For NBP Fullerton Asset Management Limited  
(Formerly National Fullerton Asset Management Limited)  
(Management Company)

Chief Executive

Chairman

# NAFA Islamic Multi Asset Fund

## INCOME STATEMENT FOR THE YEAR ENDED JUNE 30, 2010

	Note	2010	2009
		-----Rupees in '000-----	
<b>INCOME</b>			
Gain / (loss) on sale of investments - net		83,622	(90,515)
Income from Sukuk bonds		14,221	23,520
Income from Term Deposit Musharika Certificate		-	1,858
Income from spread transactions		-	165
Profit on bank deposits		7,309	4,127
Dividend income		18,223	16,241
Unrealised gain on revaluation of investments carried at fair value through profit or loss - net		2,577	15,704
		<u>125,952</u>	<u>(28,900)</u>
<b>EXPENSES</b>			
Remuneration of the Management Company		15,606	15,853
Remuneration of the Trustee		1,041	1,057
Annual fee - Securities and Exchange Commission of Pakistan		442	485
Securities transaction cost	9.1	3,668	1,537
Settlement and bank charges	10.1	454	265
Annual listing fee	11.1	45	30
Auditors' remuneration		372	385
Impairment loss on investments classified as 'available for sale'		6,235	14,775
Other expenses		390	521
Amortisation of preliminary expenses and floatation costs	15	500	500
<b>Total Expenses</b>	5.5	<u>28,753</u>	<u>35,408</u>
<b>Net income / (loss) from operating activities</b>	8	<u>97,199</u>	<u>(64,308)</u>
Element of (loss) / income and capital (losses) / gains included in prices of units issued less those in units redeemed		(41,666)	12,595
Provision for workers' welfare fund		(1,111)	-
<b>Net income / (loss) for the year before taxation</b>	16	<u>54,422</u>	<u>(51,713)</u>
Taxation		-	-
<b>Net income for the year after taxation</b>	17	<u><u>54,422</u></u>	<u><u>(51,713)</u></u>
<b>Earning per unit</b>	18		

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

For NBP Fullerton Asset Management Limited  
(Formerly National Fullerton Asset Management Limited)  
(Management Company)

Chief Executive

Chairman

# NAFA Islamic Multi Asset Fund

## STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED JUNE 30, 2010

	Note	2010	2009
		-----Rupees in '000-----	
Net income / (loss) for the year after taxation		54,422	(51,713)
<b>Other comprehensive income / (loss)</b>			
Net unrealised (diminution) during the year in the market value of investments classified as 'available for sale'		(6,607)	(6,898)
<b>Total comprehensive income / (loss) for the year</b>	5.4	<u>47,815</u>	<u>(58,611)</u>

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

For NBP Fullerton Asset Management Limited  
(Formerly National Fullerton Asset Management Limited)  
(Management Company)

Chief Executive

Chairman

# NAFA Islamic Multi Asset Fund

## DISTRIBUTION STATEMENT FOR THE YEAR ENDED JUNE 30, 2010

	2010	2009
	-----Rupees in '000-----	
Accumulated loss brought forward	(82,519)	(34,292)
Element of income and capital gains included in prices of units issued less those in units redeemed - amount representing income that form part of the unit holders' fund	43,952	3,486
Net income / (loss) for the year	54,422	(51,713)
Undistributed income / accumulated (loss) carried forward	<u>15,855</u>	<u>(82,519)</u>

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

For NBP Fullerton Asset Management Limited  
(Formerly National Fullerton Asset Management Limited)  
(Management Company)

Chief Executive

Chairman

# NAFA Islamic Multi Asset Fund

## STATEMENT OF MOVEMENT IN UNIT HOLDERS' FUND FOR THE YEAR ENDED JUNE 30, 2010

	2010	2009
	-----Rupees in '000-----	
Net assets at the beginning of the year	535,384	697,586
Issue of 19,581,852 units (2009: 2,588,932 units)	194,892	21,931
Redemption of 43,585,769 units (2009: 13,296,694 units)	<u>(432,645)</u>	<u>(112,927)</u>
	297,631	606,590
Element of loss / (income) and capital losses / (gains) included in prices of units issued less those in units redeemed		
- amount representing loss / (income) and capital losses / (gains) - transferred to Income Statement	41,666	(12,595)
- amount representing (income) and capital (gains) that form part of the unit holders' fund - transferred to Distribution Statement	(43,952)	(3,486)
	(2,286)	(16,081)
Net unrealised diminution during the year in the market value of investments classified as 'available for sale'	(6,607)	(6,898)
Gain / (loss) on sale of investments - net	83,622	(90,515)
Other net (loss) / income for the year after taxation	(29,200)	38,802
	54,422	(51,713)
Element of income and capital gains included in prices of units issued less those in units redeemed - amount representing income that form part of the unit holders' fund	43,952	3,486
Net assets as at the end of the year	<u><u>387,112</u></u>	<u><u>535,384</u></u>

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

**For NBP Fullerton Asset Management Limited  
(Formerly National Fullerton Asset Management Limited)  
(Management Company)**

Chief Executive

Chairman



# NAFA Islamic Multi Asset Fund

## CASH FLOW STATEMENT FOR THE YEAR ENDED JUNE 30, 2010

Note	2010	2009
	-----Rupees in '000-----	
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>	54,422	(51,713)
Net income / (loss) for the year before taxation		
	(2,577)	(15,704)
<b>Adjustments</b>	6,235	14,775
Unrealised gain on investments at fair value through profit or loss - net	500	500
Impairment loss on investments classified as 'available for sale'		
Amortisation of preliminary expenses and floatation costs	41,666	(12,595)
Element of (loss) / income and capital (losses) / gains included in prices of units issued less those in units redeemed	100,246	(64,737)
<b>(Increase) / decrease in assets</b>	145	73,943
Receivable against sale of investments	135,239	(13,147)
Investments	-	60,000
Loans and receivables	1,817	6,038
Dividend and profit receivable	36	(67)
Advances, deposits and prepayments	137,237	126,767
<b>Increase / (decrease) in liabilities</b>	(377)	(2,177)
Payable to Management Company	30	(48)
Payable to Trustee	(43)	(64)
Payable to Securities and Exchange Commission of Pakistan	15,190	(19)
Payable on redemption of units	1,183	592
Accrued expenses and other liabilities	15,983	(1,716)
	253,466	60,314
<b>Net cash inflow from operating activities</b>		
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>	194,892	21,931
Receipts from issue of units	(432,645)	(112,927)
Payments on redemption of units	(237,753)	(90,996)
<b>Net cash outflow on financing activities</b>	15,713	(30,682)
<b>Net increase / (decrease) in cash and cash equivalents during the year</b>	30,654	61,336
Cash and cash equivalents at the beginning of the year	4	46,367
<b>Cash and cash equivalents at the end of the year</b>	46,367	30,654

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

**For NBP Fullerton Asset Management Limited  
(Formerly National Fullerton Asset Management Limited)  
(Management Company)**

Chief Executive

Chairman

# NAFA Islamic Multi Asset Fund

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2010

### 1 LEGAL STATUS AND NATURE OF BUSINESS

NAFA Islamic Multi Asset Fund (NIMF / the Fund) was established under a Trust Deed executed between NBP Fullerton Asset Management Limited (NAFA) (Formerly National Fullerton Asset Management Limited) as Management Company and Central Depository Company of Pakistan Limited (CDC) as Trustee. The Trust Deed was executed on August 20, 2007 and was approved by the Securities and Exchange Commission of Pakistan (SECP) on September 03, 2007 in accordance with the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 (NBFC Rules).

The Management Company of the Fund has been licensed to act as an Asset Management Company under the NBFC Rules through a certificate of registration issued by the SECP. The registered office of the Management Company is situated at 9th floor, Adamjee House, I. I. Chundrigar Road, Karachi.

NIMF 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 core objective of the Fund is to provide investors with a combination of capital growth and income by investing in Shariah compliant investments. The Fund aims to achieve attractive returns at moderate levels of risk by investing in a variety of Shariah Compliant securities, instruments and avenues such as equities, musharakah, murabahah, ijarah, etc.

The Pakistan Credit Rating Agency Limited has assigned an asset manager rating of AM2- to the Management Company. Based on the performance of the Fund for the year ended June 30, 2009, it has assigned performance ranking of Five Star for short term (tailoring 12 months) to the Fund.

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

### 2 BASIS OF PREPARATION

#### 2.1 Statement of compliance

These financial statements have been prepared in accordance with 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 Changes in accounting policies and disclosures arising from standards, interpretations and amendments to published approved accounting standards that are effective in the current year

a) International Accounting Standard (IAS) 1 (revised), 'Presentation of financial statements' (effective from January 1, 2009). The revised standard prohibits the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity. It requires non-owner changes in equity to be presented separately from owner changes in equity. All non-owner changes in equity are required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income). Where entities restate or reclassify comparative information, they are required to present a restated statement (referred to as the statement of assets and liabilities in these financial statements) as at the beginning of the comparative period, in addition to the current requirement to present statements of financial position at the end of the current period and comparative period.

The Fund has applied IAS 1 (revised) from July 1, 2009, and has elected to present two performance statements. As a result non-owner changes in equity which were previously credited directly in the statement of movement in unit holders' fund are now shown as other comprehensive income in the performance statement (referred to as statement of comprehensive income in these financial statements). The change in presentation has not affected the values of the net assets of the Fund for either the current or any of the prior periods and hence restated statement of assets and liabilities has not been presented. The adoption of this standard has resulted in increase in certain disclosures.

b) International Financial Reporting Standard (IFRS) 7 (amendment) 'Financial instruments: Disclosures' (effective from January 1, 2009). The amendment requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. The adoption of the amendment results in additional disclosures, but does not have an impact on the Fund's financial position or performance.

#### 2.3 Other standards, interpretations and amendments to published approved accounting standards that are effective in the current year

The following new standards and amendments to existing standards are mandatory for the first time for the financial year beginning July 1, 2009:

a) IAS 39 (amendment), 'Financial instruments: Recognition and measurement' (effective from January 1, 2009). The amendment was part of the IASB's annual improvements project published in May 2008. The definition of financial asset or financial liability at fair value through profit or loss as it relates to items that are held for trading was amended. This clarifies that a financial asset or liability that is part of a portfolio of financial instruments managed together with evidence of an actual recent pattern of short-term profit taking is included in such a portfolio on initial recognition. The adoption of the amendment did not have any impact on the Fund's financial statements.

# NAFA Islamic Multi Asset Fund

- B) IAS 32 (amendment), 'Financial instruments: Presentation', and IAS 1 (amendment), 'Presentation of financial statements – Puttable financial instruments and obligations arising on liquidation' (effective from January 1, 2009). The amended standards require entities to classify puttable financial instruments, or components of instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation as equity, provided the financial instruments have particular features and meet specific conditions, including that all financial instruments in the class of instruments that is subordinate to all other instruments have identical features. One of the particular features is that apart from the contractual obligation for the issuer to repurchase or redeem the instrument for cash or another financial asset, the instrument does not include any contractual obligation to deliver cash and another financial asset to another entity. In this connection Regulation 63 of the Non-Banking finance Companies and Notified Entities Regulations, 2008 mandates the payment of 90% of the Funds income for the year as dividends, therefore the amendment has not changed the classification of units in the financial statements.
- c) IAS 38 (Amendment), 'Intangible assets' (effective from January 1, 2009). The amended standard states that a prepayment may only be recognised in the event that payment has been made in advance of obtaining right of access of goods or receipt of services. This Amendment is not expected to have a significant effect on the Fund's financial statements.

There are other standards, interpretations and amendments that were mandatory for accounting periods beginning on or after July 1, 2009 but were considered not to be relevant or did not have any significant effect on the Fund's operations and are, therefore, not disclosed in these financial statements.

2.4

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

The following standards, amendments and interpretations to existing standards have been published but are not yet effective:

- a) IAS 7 (Amendment), 'Statement of Cash Flows' (effective from January 1, 2010). The amendment requires that only expenditures that result in a recognised asset in the statement of financial position can be classified as investing activities. The amendment is not expected to have any impact on the Fund's financial statements.
- b) IAS 24 'Related Party Disclosures' (revised) (effective from January 1, 2011). The revised standard simplifies the disclosure requirements for government-related entities and clarifies the definition of a related party.

There are certain other new standards, amendments and interpretations that are mandatory for accounting periods beginning on or after January 1, 2010 but are considered not to be relevant or to have any significant effect on the Fund's operations and are therefore not detailed in these financial statements.

2.5

## Critical accounting estimates and judgements

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 judgement in the process of applying the Fund's accounting policies. Estimates and judgements 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 judgement was exercised in application of accounting policies principally relate to classification and valuation of investments (note 3.2 and 5):

2.6

## Accounting Convention

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

2.7

## 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. These policies have been consistently applied to all the years presented except as explained in note 2.2 to these financial statements.

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

3.2.1

#### Classification

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 market prices, interest rate movements or are financial assets included in a portfolio in which a pattern of short-term profit taking exists.

# NAFA Islamic Multi Asset Fund

**b) Available for sale**

These are non-derivative 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. Available for sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified as (a) loans and receivables, (b) held to maturity investments or (c) financial assets at fair value through profit or loss.

**c) Loans and receivables**

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

### 3.2.2 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.

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

#### 3.2.4.1 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 Debt Securities**

Investment in term finance certificates are valued in accordance with the methodology for valuation of debt securities prescribed in the SECP's circular no. 1/2009 dated January 06, 2009. Under the said directive, investment in term finance certificates are valued on the basis of traded, thinly traded and non traded securities. Accordingly, investment in term finance certificates have been valued at the rates determined and announced by MUFAP based on the methodology prescribed in the circular.

**b) Basis of valuation of Equity Securities**

Subsequent to initial recognition, financial assets designated by the management as at fair value through profit or loss and available for sale that comprise of equity securities are valued on the basis of quoted market prices available at the stock exchange.

Net gains and losses arising on changes in the fair value of financial assets carried at fair value through profit or loss are taken to the Income statement.

From July 1, 2009 net gains and losses arising on changes in the fair value of available for sale financial assets are taken to the 'Statement of Comprehensive Income' until these are derecognised or impaired. At this time, the cumulative gains or loss previously recognised in the 'Statement of Comprehensive Income' is transferred to the income statement. Previously, net gains and losses arising on changes in the fair value of available for sale financial assets were taken to the 'Statement of Unitholders Fund' until they were derecognised or impaired at which time the cumulative gains or losses recognised in the Statement of Unitholders Fund was transferred to the income statement.

3.2.4.2 Loans and receivables are carried at amortised cost using the effective interest method.

### 3.2.5 Impairment

The Fund assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is 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 the Income Statement is reclassified from the Statement of Comprehensive Income to the income statement.

For financial assets classified as '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 determined based on the provisioning criteria specified by SECP.

As allowed under circular No. 13 of 2009 issued by SECP, the management may also make provision against debt securities over and above the minimum provision requirement prescribed in the aforesaid circular, in accordance with a provisioning policy approved by the Board of Directors and disseminated by the management company on its website.

### 3.2.6 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.

### 3.2.7 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 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.

# NAFA Islamic Multi Asset Fund

## 3.4 Derivatives

Derivative instruments are initially recognised at fair value and subsequent to initial measurement each derivative instrument is remeasured to its fair value and the resultant gain or loss is recognised in the income statement.

## 3.5 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 and the NBFC Regulations.

## 3.6 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 of that day. 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 Management Company, Investment facilitators or distributors. 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 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.

## 3.7 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 income / (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.

## 3.8 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.

## 3.9 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 ninety percent of its accounting income for the year, as reduced by capital gains, whether realised or unrealised, is distributed among the unit holders.

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 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.

## 3.10 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.

## 3.11 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 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.
- Dividend income is recognised when the right to receive the payment is established.
- Income on sukuk bonds is recognised on time proportion basis.
- Income from term deposit musharika certificates is recognised on an accrual basis.
- Profit on bank deposits and placements is recognised on an accrual basis.
- Income on issue and redemption of units is recognised when units are issued and redeemed on the transaction date.

## 3.12 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.

# NAFA Islamic Multi Asset Fund

## 3.13 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 issue at the year end.

	Note	2010	2009
		-----Rupees in '000-----	
<b>4 BALANCES WITH BANKS</b>			
Current accounts		10,792	8,318
Savings accounts	4.1	<u>35,575</u>	<u>22,336</u>
		<u>46,367</u>	<u>30,654</u>
4.1	These accounts carry profit at rates ranging from 5% to 12.50% (2009: 5% to 15.60%) per annum.		
<b>5 INVESTMENTS</b>			
		-----Rupees in '000-----	
<b>At fair value through profit or loss - held for trading</b>			
Investment in shares of listed companies	5.1	223,912	361,212
<b>Available for sale</b>			
Sukuk bonds	5.2	<u>123,956</u>	<u>132,160</u>
		<u>347,868</u>	<u>493,372</u>

# NAFA Islamic Multi Asset Fund

## 5.1 Investment in shares of listed companies at fair value through profit or loss

Name of the investee company	As at July 1 2009	Purchases during the year	Bonus / Rights issue	Sales during the year	As at June 30, 2010	Market value as at June 30, 2010	Market value as a percentage of net assets	Market value as a percentage of total investment	Percentage of paid-up capital of the investee company held
	Number of shares					Rupees in '000			
<b>Oil and Gas</b>									
Attock Refinery Limited	83,200	232,919	-	316,119	-	-	-	-	-
Mari Gas Company Limited	-	31,000	-	31,000	-	-	-	-	-
National Refinery Limited	54,788	75,700	-	108,488	22,000	4,023	1.04%	1.16%	0.03%
Oil and Gas Development Company Limited	702,300	1,352,600	-	1,892,100	162,800	23,067	5.96%	6.63%	0.00%
Pakistan Oil Fields Limited	145,300	1,214,500	-	1,206,200	153,600	33,162	8.57%	9.53%	0.06%
Pakistan Petroleum Limited	300,593	954,432	52,819	1,130,301	177,543	32,689	8.44%	9.40%	0.02%
Pakistan Refinery Limited	34,065	23,700	-	57,765	-	-	-	-	-
Pakistan State Oil Company Limited	237,794	674,600	-	848,000	64,394	16,755	4.33%	4.82%	0.04%
<b>Chemicals</b>									
Engro Corporation Limited	195,696	-	-	195,696	-	-	-	-	-
Fauji Fertilizer Bin Qasim Limited	-	1,527,500	-	964,500	563,000	14,661	3.79%	4.21%	0.06%
Fauji Fertilizer Company Limited	374,250	1,470,400	-	1,487,200	357,450	36,842	9.52%	10.59%	0.05%
ICI Pakistan Limited	-	90,500	-	90,500	-	-	-	-	-
Lotte Pakistan PTA Limited	-	214,500	-	128,000	86,500	697	0.18%	0.20%	0.01%
<b>Construction &amp; Materials</b>									
Attock Cement Pakistan Limited	-	267,531	-	219,003	48,528	3,179	0.82%	0.91%	0.06%
D G Khan Cement Company Limited	-	645,220	-	645,220	-	-	-	-	-
D G Khan Cement Company Limited Right Shares	-	-	28,244	28,244	-	-	-	-	-
Fauji Cement Company Limited	-	1,962,000	-	1,962,000	-	-	-	-	-
Kohat Cement Limited	-	816,500	-	816,500	-	-	-	-	-
Lucky Cement Company Limited	422,100	1,647,000	-	1,959,300	109,800	6,823	1.76%	1.96%	0.03%
Maple Leaf Cement Factory Limited	-	2,056,000	-	2,056,000	-	-	-	-	-
<b>General Industrials</b>									
Ghani Glass Limited	-	41,000	-	-	41,000	2,337	0.60%	0.67%	0.04%
Packages Limited	-	85,000	-	85,000	-	-	-	-	-
Thall Limited	131,400	27,000	26,279	123,608	61,071	5,798	1.50%	1.67%	0.12%
Tri Pak Films Limited	-	99,800	-	99,800	-	-	-	-	-
<b>Industrial Engineering</b>									
Al Ghazi Tractors Limited	37,600	-	-	37,600	-	-	-	-	-
Millat Tractors Limited	-	24,100	2,950	12,452	14,598	7,012	1.81%	2.02%	0.05%
<b>Automobile &amp; Parts</b>									
Indus Motor Company Limited	21,300	89,200	-	97,400	13,100	3,437	0.89%	0.99%	0.02%
Pak Suzuki Motor Company Limited	-	161,000	-	161,000	-	-	-	-	-
<b>Food Producers</b>									
Unilever Pakistan Limited	-	1,709	-	-	1,709	6,640	1.72%	1.91%	0.01%
<b>Household Goods</b>									
Pakistan Electron Limited	-	85,600	-	85,600	-	-	-	-	-
<b>Personal Goods</b>									
Nishat Mills Limited	-	356,000	-	356,000	-	-	-	-	-
<b>Fixed Line Telecommunication</b>									
Pakistan Telecommunication Company Limited	-	3,518,500	-	2,892,100	626,400	11,150	2.88%	3.21%	0.02%
<b>Electricity</b>									
The Hub Power Company Limited	1,497,500	2,394,000	-	3,402,129	489,371	15,640	4.04%	4.50%	0.04%
<b>Gas Water and Multiutilities</b>									
Sui Northren Gas Pipelines Limited	-	145,500	-	145,500	-	-	-	-	-
Sui Southren Gas Company Limited	-	362,200	-	362,200	-	-	-	-	-
<b>Banks</b>									
BankIslami Pakistan Limited	1,465,172	-	-	1,465,172	-	-	-	-	-
Meezan Bank Limited	60,500	495,000	-	555,500	-	-	-	-	-
					<b>2,992,864</b>	<b>223,912</b>	<b>57.85%</b>	<b>64.38%</b>	
Carrying value as at June 30, 2010						<b>221,335</b>			





# NAFA Islamic Multi Asset Fund

5.5	Movement in provision against debt securities	Note	2010	2009
		-----Rupees in '000-----		
	Opening balance		14,775	-
	Charge for the year		21,010	14,775
	Less: Reversal of impairment loss		(14,775)	-
	Charge for the year - net		6,235	14,775
	Closing balance		<u>21,010</u>	<u>14,775</u>
6	<b>DIVIDEND AND PROFIT RECEIVABLE</b>			
	Dividend receivable on equity securities		1,160	2,426
	Profit on savings deposits		2,182	1,406
	Income accrued on sukuk bonds		4,889	3,253
	Less: Suspended Income		(4,580)	(1,617)
			309	1,636
			<u>3,651</u>	<u>5,468</u>
7	<b>ADVANCES, DEPOSITS AND PREPAYMENTS</b>			
	Security deposits with:			
	- National Clearing Company of Pakistan Limited		2,500	2,500
	- Central Depository Company of Pakistan Limited		100	100
	Prepaid Listing Fee		-	15
	Prepaid Mutual Fund Rating Fee		29	50
	Advance Tax		32	32
			<u>2,661</u>	<u>2,697</u>
8	<b>PRELIMINARY EXPENSES AND FLOATATION COSTS</b>			
	Opening Balance		1,660	2,160
	Less: amortisation during the year	8.1	500	500
	Balance as at June 30		<u>1,160</u>	<u>1,660</u>
8.1	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 October 27, 2007 as per the requirements set out in the Trust Deed of the Fund.			
9	<b>PAYABLE TO THE MANAGEMENT COMPANY</b>			
		-----Rupees in '000-----		
	Management fee	9.1	949	1,293
	Front end load		87	120
			<u>1,036</u>	<u>1,413</u>
9.1	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 three percent per annum for the current year. The remuneration is paid monthly in arrears.			
10	<b>PAYABLE TO THE TRUSTEE</b>			
		-----Rupees in '000-----		
	Trustee fee	10.1	65	86
	CDS charges		53	2
			<u>118</u>	<u>88</u>
10.1	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, 2010 is as follows:			
	<b>Amount of Funds Under Management (Average NAV)</b>		<b>Tariff per annum</b>	
	Upto Rs 1,000 million		Rs 0.7 million or 0.20% p.a. of NAV, whichever is higher	
	On an amount exceeding Rs 1,000 million		Rs 2.0 million plus 0.10% p.a. of NAV exceeding Rs 1,000 million.	
	The remuneration is paid to the trustee monthly in arrears.			
11	<b>PAYABLE TO SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN</b>			
		-----Rupees in '000-----		
	Annual Fee	11.1	442	485

# NAFA Islamic Multi Asset Fund

11.1 Under the provisions of the Non-Banking Finance Companies and Notified Entities Regulations, 2008, the Fund is required to pay as annual fee to the Securities and Exchange Commission of Pakistan, an amount equal to 0.085 percent of the average annual net assets of the Scheme.

9	Note	2010	2009
-----Rupees in '000-----			
<b>ACCRUED EXPENSES AND OTHER LIABILITIES</b>			
Auditors' remuneration		230	212
Brokerage payable		230	124
Bank charges payable		45	14
Payable against printing charges		356	322
Accrued NCCS charges		57	28
Charity payable	12.1	330	476
Provision for Workers' Welfare Fund	16	1,111	-
		<u>2,359</u>	<u>1,176</u>

12.1 In accordance with the instructions of the Shariah Advisor, any income earned by the Fund from investments whereby the portion of the investment of the investee company has been made in Shariah non-compliant avenues, such proportion of income of the Fund from those investments should be given away for charitable purposes directly by the Fund. During the year, Rs.463 thousand (2009: Rs.227 thousand) has been given out to charitable institutions.

## 13 CONTINGENCIES AND COMMITMENTS

There were no contingencies and commitments at the end of the year.

## 14 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.

## 15 AUDITORS' REMUNERATION

	-----Rupees in '000-----	
Audit fee	210	200
Half yearly review	85	80
Shariah Compliance Audit Fee	38	75
Out of pocket expenses	39	30
	<u>372</u>	<u>385</u>

## 16 PROVISION FOR WORKERS' WELFARE FUND

The Finance Act, 2008 introduced an amendment to the Workers' Welfare Fund (WWF) Ordinance, 1971, whereby the definition of "industrial establishment" was amended to include therein, any establishment to which the West Pakistan Shops and Establishment Ordinance, 1969 (Ordinance of 1969) applies. Management Company of the Fund, based on a legal advice obtained through Mutual Funds Association of Pakistan (MUFAP) was of a firm view that Collective Investment Scheme (CIS) were not establishments and therefore, the WWF Ordinance should not be applicable to such schemes. The MUFAP had also filed a constitutional petition in the High Court of Sindh (the Court) on behalf of the members, challenging the applicability of WWF to the CIS. The said petition was dismissed by the Court vide its order dated May 25, 2010 on the main ground that the MUFAP (Petitioner) could not be held entitled to maintain a petition in respect of its members as it was not the aggrieved party. The Judgment recognises that the Trusts are covered by the scope of the definition of commercial establishment as contained in Ordinance of 1969 and, therefore, mutual funds and other funds appear to be covered unless it can be established that they fall within the scope of exemption set out in Section 5 (1)(iii) of the Ordinance of 1969 i.e. the Trusts not run for profit or in the course of business does not make any profit. This could be examined when the aggrieved parties directly approached the Court for redressal.

In the meantime, clarification has been obtained by the MUFAP from the Ministry of Labour & Manpower, Workers' Welfare Fund, Govt. of Pakistan, which, through their letter nos. WWF (A- II)11 (5)/2010 dated July 8, 2010 and July 15, 2010, has clarified that the WWF Ordinance, 1971 does not have any provisions for the applicability of WWF on those entities whose income are exempt from income tax under any provisions of any law, and that mutual funds are a product being managed / sold by asset management companies which are liable to contribute towards the said WWF levy.

Various legal opinions are available on this matter. Some legal advisors are of the view that this levy is not applicable on CIS and therefore provision is not required to be created while there is also a contrary view according to which this levy has become applicable on the fund and the letter issued by the Ministry of Labour, Government of Pakistan has no legal significance.

Because of ambiguity created based on conflicting opinions by lawyers and as a matter of abundant caution the Management Company of the Fund has decided to recognize a provision for WWF in these financial statements.

## 17 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 year as the management company has distributed at least 90 percent of the Fund's accounting income for the year as reduced by capital gains (whether realised or unrealised) to its unit holders.

## 18 EARNING PER UNIT

Earning per unit (EPU) for the year ended June 30, 2010 has not been disclosed as in the opinion of the management, determination of weighted average units for calculating EPU is not practicable.

# NAFA Islamic Multi Asset Fund

## 19 COMPLIANCE WITH THE INVESTMENT CRITERIA AS SPECIFIED BY THE SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

The Securities and Exchange Commission of Pakistan vide circular no. 7 of 2009 dated March 6, 2009 required all Asset Management Companies to classify funds under their management on the basis of categorisation criteria laid down in the circular. The Management Company classified NAFA Islamic Multi Asset Fund (the Fund) as 'Shariah Compliant (Islamic) Scheme' and 'Balanced Scheme' in accordance with the said circular. As at June 30, 2010, the Fund is compliant with all the requirements of the said circular except for clause 2(iv) which requires that rating of any debt security in the portfolio shall not be lower than A- (A Minus) and clause 2(vii) which requires that Weighted average time to maturity of non-equity assets shall not exceed 2 years.

Name of non-compliant investment	Type of investment	Value of investment before provision	Provision held, if any	Value of investment after provision	Percentage of net assets	Percentage of gross assets	
(Rupees in '000)							
i)	Investment in debt securities *	a) Maple Leaf Cement Factory Limited - Sukuk	49,979	13,667	36,312	9.38%	8.94%
		b) Kohat Cement Company Limited - Sukuk	36,225	-	36,225	9.36%	8.92%
		c) Eden Housing Limited - Sukuk	19,844	5,469	14,375	3.71%	3.54%
ii)	Weighted average time to maturity of the non-equity assets **	Non-equity assets of the Fund	182,345	21,010	161,335	41.68%	39.71%

\* At the time of purchase, the said Sukuks were in compliance of the said circular (i.e. investment grade) and was subsequently downgraded due to default in payments of due principal and markup.

\*\* The weighted average time to maturity of the non-equity assets is 3.32 years.

The management is taking steps to ensure compliance with the above requirement.

## 20 FINANCIAL INSTRUMENTS BY CATEGORY

### Assets

Balances with banks  
Receivable against sale of investments  
Investments  
Dividend and Profit receivable  
Deposits

-----As at June 30, 2010-----			
Loans and receivables	Assets at fair value through profit or loss	Available for sale	Total
-----Rupees in '000-----			
46,367	-	-	46,367
4,550	-	-	4,550
-	223,912	123,956	347,868
3,651	-	-	3,651
2,600	-	-	2,600
<u>57,168</u>	<u>223,912</u>	<u>123,956</u>	<u>405,036</u>

### Liabilities

Payable to the Management Company  
Payable to the Trustee  
Payable on redemption of units  
Accrued expenses and other liabilities

-----As at June 30, 2010-----		
Liabilities at fair value through profit or loss	Other financial liabilities	Total
-	1,036	1,036
-	118	118
-	15,190	15,190
-	<u>1,248</u>	<u>1,248</u>
-	<u>17,592</u>	<u>17,592</u>

### Assets

Balances with banks  
Receivable against sale of investments  
Investments  
Dividend and Profit receivable  
Deposits

-----As at June 30, 2009-----			
Loans and receivables	Assets at fair value through profit or loss	Available for sale	Total
-----Rupees in '000-----			
30,654	-	-	30,654
4,695	-	-	4,695
-	361,212	132,160	493,372
5,468	-	-	5,468
2,600	-	-	2,600
<u>43,417</u>	<u>361,212</u>	<u>132,160</u>	<u>536,789</u>

# NAFA Islamic Multi Asset Fund

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

Liabilities	Liabilities at fair value through profit or loss	Other financial liabilities	Total
Payable to the Management Company	-	1,413	1,413
Payable to the Trustee	-	88	88
Accrued expenses and other liabilities	-	1,176	1,176
	<u>-</u>	<u>2,677</u>	<u>2,677</u>

## 21 TRANSACTIONS WITH CONNECTED PERSONS

21.1 Connected persons include NBP Fullerton Asset Management Limited (NAFA) (Formerly National Fullerton Asset Management Limited) being the Management Company, Central Depository Company of Pakistan Limited being the Trustee, National Bank of Pakistan (NBP), NIB Bank Limited (NIB) (till March 31, 2010) 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 On March 31, 2010, NIB has sold out its shareholding of NAFA to NBP. Accordingly, thereafter NIB is no longer a connected person for NAFA.

21.3 The transactions with connected persons are in the normal course of business, at contracted rates and terms determined in accordance with market rates.

21.4 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.

21.5 Remuneration payable to the Trustee is determined in accordance with the provisions of the NBFC Regulations and the Trust Deed.

### 21.6 Details of the transactions with connected persons are as follows:

	2010	2009
	-----Rupees in '000-----	
<b>Management Company</b>		
Management fee for the year	15,606	15,853
Front end load for the year	2,117	299
<b>Central Depository Company of Pakistan Limited - Trustee</b>		
Trustee fee for the year	1,041	1,057
CDS charges	141	87
<b>Chief Financial Officer</b>		
Units issued / transferred in (29,890 units; 2009: Nil units)	300	-
Units redeemed / transferred out (29,890 units; 2009: Nil units)	294	-
<b>Employees of the Management Company</b>		
Units issued / transferred in (724,903 units; 2009: 639,839 units)	7,183	5,191
Units redeemed / transferred out (793,466 units; 2009: 601,467 units)	7,966	4,973
<b>NAFA Islamic Income Fund</b>		
Units issued (Nil units; 2009: 7,194,267 units)	-	70,000
Units redeemed (Nil units; 2009: 14,794,294 units)	-	141,894
Payment made for the purchase of sukuk bonds	21,175	-
<b>NAFA Cash Fund</b>		
Payment received for the sale of sukuk	-	25,892

### 21.7 Amounts outstanding as at the year end

	-----Rupees in '000-----	
<b>Management Company</b>		
Management Fee payable	949	1,293
Front end load payable	87	120
<b>National Bank of Pakistan</b>		
Investment held by the Sponsor in the Fund (7,500,000 units; 2009: 7,500,000 units)	75,527	64,302
Balance in current account	4,923	155
<b>Alexandra Fund Management Pte. Limited</b>		
Investment held by the Sponsor in the Fund (10,000,000 units; 2009: 10,000,000 units)	100,702	85,736
<b>Central Depository Company of Pakistan Limited - Trustee</b>		
Trustee fee payable	65	86
CDS charges payable	53	2
Security deposit	100	100
<b>Employees of the Management Company</b>		
Units held in the Fund (1,336 units; 2009: 69,899 units)	13	599

# NAFA Islamic Multi Asset Fund

## 22 PARTICULARS OF INVESTMENT COMMITTEE AND FUND MANAGER

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

S.No	----- As at June 30, 2010 -----		
	Name	Qualification	Experience in years
1	Dr. Amjad Waheed	MBA / Doctorate in Business Administration / CFA	22
2	Sajjad Anwar*	CFA / MBA Finance	10
3	Irfan Malik	CFA / MBA	13
4	Tanvir Abid	CFA / MBA	11

\* Sajjad Anwar is the Fund Manager of the Fund. He is also the fund manager of NAFA Multi Asset Fund and NAFA Stock Fund.

## 23 TOP TEN BROKERS / DEALERS BY PERCENTAGE OF COMMISSION PAID

		2010
1	JS Global Equities	7.47%
2	KASB Securities Ltd	6.60%
3	Taurus Securities	6.02%
4	Foundation Securities	4.73%
5	Elixir Securities Pakistan	4.71%
6	Invisor Securities	4.69%
7	IGI FINEX	4.40%
8	Habib Metropolitan Financial Services	3.64%
9	Global Securities	3.64%
10	Invest Capital & Securities	3.28%
		2009
1	Growth Securities (Private) Limited	9.38%
2	Live Securities Limited	7.60%
3	Global Securities Pakistan Limited	6.46%
4	Invisor Securities (Private) Limited	6.45%
5	FDM Capital Securities (Private) Limited	6.38%
6	Pearl Securities (Private) Limited	5.16%
7	Invest and Finance Securities (Private) Limited	4.33%
8	Fortune Securities Limited	3.98%
9	KASB Securities Limited	3.65%
10	Sao Capital (Private) Limited	3.58%

## 24 PATTERN OF UNIT HOLDING

Category	2010		
	Number of unit holders	Investment amount	Percentage investment
	-----Rupees in '000-----		
Individuals	417	46,582	12.03%
Associated Companies / Directors	2	176,228	45.52%
Insurance Companies	2	27,102	7.00%
Banks / DFIs	2	25,177	6.50%
NBFC	-	-	-
Retirement Fund	13	79,748	20.62%
Public Limited Companies	1	50	0.01%
Others	2	32,225	8.32%
	<u>439</u>	<u>387,112</u>	<u>100.00%</u>

# NAFA Islamic Multi Asset Fund

Category	2009		
	Number of unit holders	Investment amount	Percentage investment
	-----Rupees in '000-----		
Individuals	462	54,667	10.21%
Associated Companies / Directors	3	214,341	40.04%
Insurance Companies	2	22,967	4.29%
Banks / DFIs	4	64,410	12.03%
NBFC	-	-	-
Retirement Fund	16	70,108	13.09%
Public Limited Companies	1	43	0.01%
Others	6	108,848	20.33%
	494	535,384	100.00%

## 25 ATTENDANCE AT MEETINGS OF BOARD OF DIRECTORS

The 22nd, 23rd, 24th, 25th and 26th Board meetings were held on July 03, 2009, August 31, 2009, October 28, 2009, February 17, 2010 and April 29, 2010 respectively. Information in respect of attendance by Directors in the meetings is given below:

Name of Director	Number of meetings held	Attended	Leave granted	Meetings not attended
Mr. Masood Karim Shaikh*	2	1	1	23rd meeting
Dr. Amjad Waheed	5	5	-	
Mr. Gerard Lee How Cheng	5	3	2	23rd & 26th meeting
Mr. Patrick Pang Chin	5	5	-	
Mr. Shahid Anwar Khan	5	3	2	24th & 26th meeting
Mr. Qamar Hussain**	3	2	1	25th meeting
Raymond H. Kotwal	5	5	-	
Syed Naseer Ul Hasan	5	5	-	

\* Mr. Masood Karim Shaikh retired from office on October 16, 2009.

\*\* Mr. Qamar Hussain was elected as director on October 16, 2009.

## 26 FINANCIAL RISK MANAGEMENT

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 value of a financial instrument may fluctuate as a result of changes in market interest rates or market price of securities due to change in credit rating of the issuer of the instrument, change in market sentiments, supply and demand of securities and liquidity in the market. There is a possibility of default of participants and of failure of the financial markets / stock exchanges, the depositories, the settlement or the clearing system etc.

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, yield / 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 currently all transactions are carried out in Pak Rupees.

#### 26.1.2 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.

##### a) Sensitivity analysis for variable rate instruments

Presently, the Fund holds KIBOR based interest bearing sukuk bonds exposing the Fund to cash flow interest rate risk. In case of 100 basis points increase / decrease in KIBOR on June 30, 2010, 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 0.064 million (2009: Rs 0.107 million).

##### b) Sensitivity analysis for fixed rate instruments

Presently, the Fund holds no fixed rate instruments. As a result, the net assets of the Fund and net income for the year would remain unaffected in case of 100 basis points increase / decrease in interest rates announced by Financial Market Association on June 30, 2010.

# NAFA Islamic Multi Asset Fund

## Yield/ Interest Rate Risk

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.

The Fund is mainly exposed to mark-up / interest rate risk on its investment portfolio. The Investment Committee of the Fund reviews the portfolio of the Fund on a regular basis to ensure that risk is managed within acceptable limits. 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 settlement date.

-----2010-----						
Effective Interest Rate %	Total	Exposed to Yield / Interest risk			Not exposed to Yield / Interest risk	
		Upto three months	Over three months and upto one year	Over one year		
-----Rupees in '000-----						
<b>On-balance sheet financial instruments</b>						
<b>Financial Assets</b>						
Balances with banks	5.00 - 12.50	46,367	35,575	-	-	10,792
Receivable against sale of investments	-	4,550	-	-	-	4,550
Investments	13.31-17.48	347,868	-	-	123,956	223,912
Dividend and profit receivables	-	3,651	-	-	-	3,651
Deposits	-	2,600	-	-	-	2,600
<b>Sub-total</b>		<b>405,036</b>	<b>35,575</b>	<b>-</b>	<b>123,956</b>	<b>245,505</b>
<b>Financial Liabilities</b>						
Payable to the Management Company	-	1,036	-	-	-	1,036
Payable to the Trustee	-	118	-	-	-	118
Payable on redemption of units	-	15,190	-	-	-	15,190
Accrued expenses and other liabilities	-	1,248	-	-	-	1,248
<b>Sub-total</b>		<b>17,592</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>17,592</b>
<b>On-balance sheet gap</b>		<b>387,444</b>	<b>35,575</b>	<b>-</b>	<b>123,956</b>	<b>227,913</b>
<b>Off-balance sheet financial instruments</b>	-	-	-	-	-	-
<b>Off-balance sheet gap</b>		-	-	-	-	-

-----2009-----						
Effective Interest Rate %	Total	Exposed to Yield / Interest risk			Not exposed to Yield / Interest risk	
		Upto three months	Over three months and upto one year	Over one year		
-----Rupees in '000-----						
<b>On-balance sheet financial instruments</b>						
<b>Financial Assets</b>						
Balances with banks	5.00 - 15.60	30,654	22,336	-	-	8,318
Receivable against sale of investments	-	4,695	-	-	-	4,695
Investments	14.2 - 17.74	493,372	53,630	78,530	-	361,212
Dividend and profit receivables	-	5,468	-	-	-	5,468
Deposits	-	2,600	-	-	-	2,600
<b>Sub-total</b>		<b>536,789</b>	<b>75,966</b>	<b>78,530</b>	<b>-</b>	<b>382,293</b>
<b>Financial Liabilities</b>						
Payable to the Management Company	-	1,413	-	-	-	1,413
Payable to the Trustee	-	88	-	-	-	88
Accrued expenses and other liabilities	-	1,176	-	-	-	1,176
<b>Sub-total</b>		<b>2,677</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,677</b>
<b>On-balance sheet gap</b>		<b>534,112</b>	<b>75,966</b>	<b>78,530</b>	<b>-</b>	<b>379,616</b>
<b>Off-balance sheet financial instruments</b>	-	-	-	-	-	-
<b>Off-balance sheet gap</b>		-	-	-	-	-

# NAFA Islamic Multi Asset Fund

## 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 rate 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 instrument traded in the market.

### a) Sensitivity analysis for equity instruments classified as 'Available for Sale'

Presently, the Fund holds no equity instruments classified as 'available for sale'.

### b) Sensitivity analysis for equity instruments at 'Fair value through Profit or Loss'

Presently, the Fund holds equity instruments at 'fair value through profit or loss' that expose the Fund to cash flow price risk. In case 5% increase / decrease in Karachi Stock Exchange at June 30, 2010, the net assets of the Fund and net income for the year would have been higher / lower by Rs 3.588 million (2009: Rs 17.058 million).

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, 2010 is not necessarily indicative of the effect on the Fund's net assets of future movement in the level of the KSE 100 index.

## 26.2 Credit risk

Credit risk represents the risk of a loss if counter parties fail to perform as contracted. The Fund's credit risk is primarily attributable to its investment in sukuk and balances with banks. The credit risk on liquid funds is limited because the counter parties are financial institutions with reasonably high credit ratings. In addition, the internal risk management policies and investment guidelines (approved by Investment Committee) require the Fund to invest in debt securities that have been rated as investment grade by a well known rating agency.

The analysis below summarises the credit quality of the Fund's bank balances and investment in sukuk bonds as at June 30, 2010 and June 30, 2009:

Bank Balances by rating category	2010	2009
A1+	15.83%	28.10%
A1	0.13%	0.35%
A-1	71.98%	67.56%
A-1+	1.07%	1.71%
A-2	-	0.98%
A2	10.73%	1.31%
A3, A-3	0.26%	-
Sukuk by rating category	2010	2009
A, A-, A+	29.89%	74.63%
BBB, BBB+, BBB-	-	25.37%
D	39.83%	-
Non-rated	30.28%	-

The maximum exposure to credit risk before any credit enhancement as at June 30, 2010 is the carrying amount of the financial assets. None of these assets are impaired except for assets as mentioned in note 5.2.2. 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.

### 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 creditworthy counterparties thereby mitigating any significant concentration of credit risk.

## 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, if any, 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 damage 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.



# NAFA Islamic Multi Asset Fund

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 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.

<b>June 30, 2010</b>					
Total	Upto three months	More than three months and upto one year	More than one year		
-----Rupees in '000-----					
<b>Liabilities</b>					
Payable to the Management Company	1,036	1,036	-	-	
Payable to the Trustee	118	118	-	-	
Payable on redemption of units	15,190	15,190	-	-	
Accrued expenses and other liabilities	<u>1,248</u>	<u>1,248</u>	<u>-</u>	<u>-</u>	
	<u>17,592</u>	<u>17,592</u>	<u>-</u>	<u>-</u>	

<b>June 30, 2009</b>					
Total	Upto three months	More than three months and upto one year	More than one year		
-----Rupees in '000-----					
<b>Liabilities</b>					
Payable to the Management Company	1,413	1,413	-	-	
Payable to the Trustee	88	88	-	-	
Accrued expenses and other liabilities	<u>1,176</u>	<u>1,176</u>	<u>-</u>	<u>-</u>	
	<u>2,677</u>	<u>2,677</u>	<u>-</u>	<u>-</u>	

## 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 Fund has no restrictions on the subscription and redemption of units. There is no specific capital requirement which is applicable on the Fund.

The Fund's objectives when managing unit holders' funds 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.

# NAFA Islamic Multi Asset Fund

## 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 tradeable 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.

According to the amendments to International Financial Reporting Standard 7, Financial Instruments : Disclosure - Improving disclosures about financial instruments, an entity shall classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)
- inputs other than quoted prices included within level 1 that are observable for the asset or liability, whether directly (i.e. as prices) or indirectly (i.e. derived from prices) (level 2); and
- inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3)

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety shall be determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety.

As at June 30, 2010			
Level 1	Level 2	Level 3	Total
Rupees in '000			

### ASSETS

Investment in listed equity securities - held for trading	223,912	-	-	223,912
Investment in securities - available for sale	-	73,269	50,687	123,956

## 29 NON-ADJUSTING EVENT AFTER THE BALANCE SHEET DATE

The Board of Directors of the Management Company in their meeting held on July 5, 2010 approved a distribution of Rs. 1,221.7 per unit (12.2170%). The financial statements of the Fund for the year ended June 30, 2010 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, 2011.

## 30 DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue by the Board of Directors of the Management Company on August 25, 2010.

## 31 GENERAL

31.1 Figures have been rounded off to the nearest thousand rupees.

31.2 No significant rearrangements or reclassification were made in these financial statements except as required because of the changes in accounting policies as more fully explained in notes 2.2 to these financial statements.

31.3 The bifurcation of undistributed income into realised and unrealised income at the beginning and end of the year as required by the NBFC Regulations has not been disclosed as such bifurcation is not practicable.

**For NBP Fullerton Asset Management Limited  
(Formerly National Fullerton Asset Management Limited)  
(Management Company)**

Chief Executive

Chairman

# NAFA Islamic Multi Asset Fund

## PERFORMANCE TABLE

Particulars	For the year ended June 30, 2010	For the year ended June 30, 2009	For the period from September 17, 2007 to June 30, 2008
Net assets at the year / period ended (Rs '000)	387,112	535,384	697,586
Net gain / (loss) for the year / period ended (Rs '000)	54,422	(51,713)	(33,878)
Net Asset Value per unit at the year / period ended (Rs)	8.8485	8.5736	9.5360
Offer price per unit	9.1140	8.8308	9.8221
Redemption price per unit	8.8485	8.5736	9.5360
Highest offer price per unit (Rs)	9.4969	9.7562	10.7612
Lowest offer price per unit (Rs)	7.8712	6.2801	9.5581
Highest redemption price per unit (Rs)	9.2203	9.4720	10.4478
Lowest redemption price per unit (Rs)	7.6420	6.0972	9.2797
Total return of the fund	17.46%	-10.09%	-4.64%
- capital growth	3.21%	-10.09%	-4.64%
- income distribution	14.25%	0.00%	0.00%
<b>Distribution</b>			
Interim distribution per unit (Rs)	-	-	-
Final distribution per unit (Rs)	1.2217	-	-
<b>Distribution Dates</b>			
Interim	-	-	-
Final	5-Jul-10	-	-
Average annual return of the fund (launch date October 29, 2007)			
(Since inception to June 30, 2010)	0.70%		
(Since inception to June 30, 2009)		-14.26%	
(Since inception to June 30, 2008)			-4.64%
Portfolio Composition ( Please see Fund Manager Report)			
Past performance is not necessarily indicative of future performance and that unit prices and investment returns may go down, as well as up			