NAFA Funds

Monthly Report (November 2008)

National Fullerton Asset Management Limited

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National Fullerton Asset Management Limited

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AM2 (High Management Quality) Rating by JCR-VIS

National Fullerton Asset Management Limited

Dr. Amjad Waheed, CFA
Chief Executive Officer

Pakistan's Economic Challenges and the Mutual Fund Industry

Pakistan is going through one of the worst liquidity crises in its history. The crisis stemmed from the rapid depletion of foreign exchange reserves by about USD 10 billion and Net Foreign Assets of up to Rs.660 billion from the system in 10 months. This was the main factor behind the current liquidity crunch prevailing in the market.

Liquidity is an important determinant of asset prices. As a result of the liquidity crunch, all asset classes have experienced a drop in their values, including real estate, equities, Term Finance Certificates (TFCs), etc. IMF has provided US$ 3.1 billion to the Government. However, this will not inject any new liquidity in the system as this support is only for the Balance of Payment. We expect that donor agencies and other countries will provide an additional support/direct investment of around US$ 4 billion by June, 2009. The monetary support from donor agencies and the foreign direct investment from other countries is project specific. Thus, it is expected to improve liquidity in the domestic financial system. This will help in the revival of all asset classes including real estate, equities, TFCs, and will boost economic activity as well. Mutual funds – both equity and debt – are expected to benefit from this development.

Globally, mutual funds are divided into three broad asset classes – namely equities, bonds and money markets. The financial characteristics of TFCs are the same as those of floating rate bonds. In Pakistan, presently we have two broad asset classes – equities and fixed income. Fixed income class includes money market instruments, bank deposits and TFCs. TFCs have three main risks. **Credit risk** is the risk that the company issuing the TFC in order to raise financing goes bankrupt and / or defaults on its payments. **Interest-rate risk** is the risk where TFCs' values may go down as interest rates go up. **Liquidity risk** is the risk that there is no buyer or a buyer is available but at a lower price due to the liquidity crunch. TFCs owned by mutual funds generally carry very low credit risk, as companies which have issued these TFCs are mostly in good financial health and are still servicing their obligations. TFCs carry a low interest rate risk as these are floating rate instruments, where the coupon payment adjusts as the interest rates change. However, the real issue facing TFCs at present in the market is the liquidity risk, as there are very few buyers at this time. Thus, if an investor is forced to sell TFCs, the TFCs may sell at less than their face value. It is due to this risk that SECP instructed mutual funds to reduce the prices of their TFCs, which resulted in a drop in the value (unit price) of the funds. As liquidity comes back to the market, these TFCs are expected to start trading around par value, and the loss in unit price is expected to be reversed.

In the future, Asset Management Companies, learning from this experience, are expected to offer both money market funds and income funds. Money market funds will not invest in TFCs and CFS and therefore will be more safe. Income funds will invest in TFCs and therefore experience some volatility at times. However, in my view at present the best course for investors in income funds is to wait, if they can, for the liquidity to improve, TFCs to be re-priced and their losses to reverse. The timing and magnitude of improvement in the liquidity position is difficult to predict. Inflation is expected to decline significantly by June 2009, which may enable the State Bank of Pakistan to reduce the Discount Rate. One hopes that by that time, TFCs will improve in value as there is an inverse relationship between inflation and TFC prices.

NAFA Cash Fund (NCF)

National Fullerton Asset Management Limited

Unit Price (30/11/2008): Rs. 9.5368 November 2008

Investment Objective

To seek preservation of capital and earn a reasonable rate of return via investing in money market and debt securities with investment-grade rating, CFS and spread transactions.

Performance

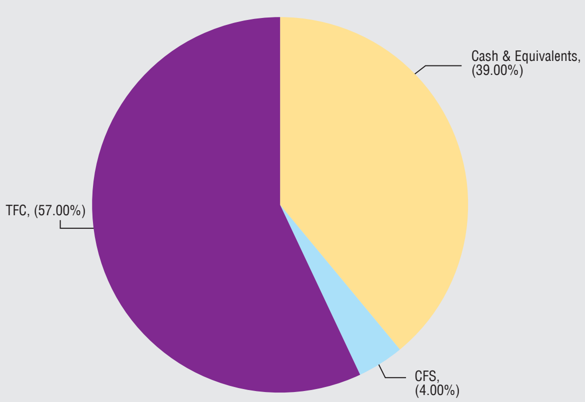
Annualized Performance (%)*	Jan - Jun 2008*	Jul - Sep 2008*	Oct 2008*	Nov 2008**	Since Launch April 22, 2006***
NAFA Cash Fund	**9.88%**	**11.78%**	**12.04%**	**(5.95)%**	**21.12%**
Benchmark	11.20%	14.10%	15.35%	1.18%	31.20%
Profit on Rs. 100,000 invested	Rs. 4,812	Rs. 2,846	Rs. 970	Rs. (5,952)	Rs. 21,124

* Represents Annualized Return
** Represents cumulative Return for the month only
*** Represents cumulative Return since inception
(Returns are net of management fee & all other expenses)

General Information

Launch Date:	April 22, 2006
Fund Size:	Rs. 12,252 million
Type:	Open-end – Fixed Income Fund
Dealing:	Daily
Settlement:	2-3 business days
Load:	No entry or exit load
Management Fee:	1.5% per annum
Fund Stability Rating:	A(f)
Listing:	Lahore Stock Exchange
Custodian & Trustee:	Central Depository Company (CDC)
Auditors:	A. F. Ferguson & Co. Chartered Accountants
Benchmark:	1-Month KIBOR
Fund Manager:	Ms. Rukhsana Narejo, CFA
Minimum Subscription:	Growth Unit: Rs. 10,000/- Income Unit: Rs. 100,000/-

Asset Allocation (as on 30th November 2008)



Fund Manager's Commentary

As per directives of the Securities & Exchange Commission of Pakistan (SECP) dated November 5, 2008 and November 6, 2008, issued to all Asset Management Companies, NAFA Cash Fund's (NCF) Term Finance Certificates (TFCs) Portfolio was revalued. The revaluation has resulted in a downward adjustment of TFC portfolio of NCF by 12.50%. At the marked-down prices, the weighted average yield of TFC portfolio of the Fund has increased to 20.50% p.a.

During the month of November 2008, the NAV of NCF was down by 5.95% from 10.1404 as at October 31, 2008 to 9.5368 as on November 30, 2008. With the improvement in liquidity conditions, we expect the prices of the TFCs to reverse to their previous levels. As a result, losses are expected to be recouped in due course of time. Furthermore, TFCs and Sukuks portfolio rated "A" and above is guaranteed by the Government of Pakistan for the period of one year. This possibility of upward adjustment in prices of TFC and Sukuk has made the investment in the Fund highly attractive. The attached chart shows asset allocation of the Fund as on November 30, 2008.

Improvement in the liquidity conditions which started by the end of October 2008 continued during November also. We expect the liquidity condition to improve further with foreign flows from the World Bank, Asian Development Bank and Islamic Development Bank. As a result, overnight lending rate in the interbank market fell sharply. The State Bank of Pakistan in its recently announced monetary policy increased Discount Rate to 15.00% from 13.00%. As a result, 6-Month KIBOR closed the month at 15.67% compared with 15.10% in the previous month.

We expect the Fund's return to improve significantly in the coming months due to: (i) attractive yield on the TFCs; (ii) resetting of TFCs' coupons at a higher KIBOR level; and (iii) higher profit rates on the bank deposits.

Disclaimer: *The price of units may go down as well as up. Please refer to the respective offering document(s).*

NAFA Multi Asset Fund (NMF)

National Fullerton Asset Management Limited

November 2008

Investment Objective

To provide investors with a combination of capital growth and income. NMF aims to achieve attractive returns at moderate levels of risk by investing in a variety of asset classes such as stocks, bonds, money market instruments, CFS etc.

Performance

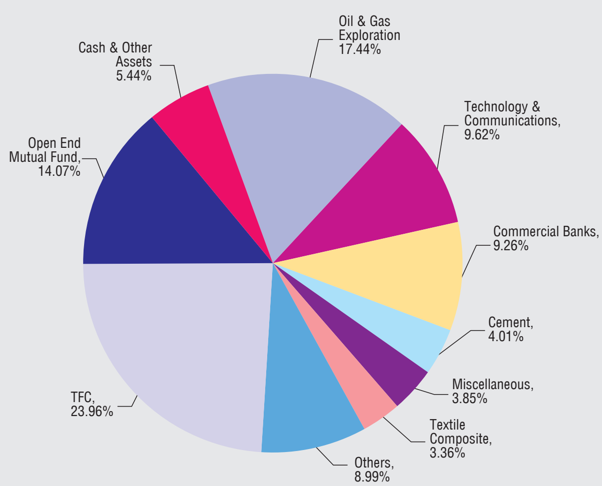
Return (%)*	**Jan - Dec 2007**	**Jan - Jun 2008**	**Jul - Sep 2008**	**Sep 2008**	**Since Launch** till Sept 30, 2008
NAFA Multi Asset Fund	**44.06%**	**-5.90%**	**-13.13%**	**-0.02%**	**17.76%**
Benchmark (50% KSE-30 Index & 50% 1-month KIBOR)	17.50%	-4.38%	-14.37%	-0.05%	-3.79%

*Returns are net of management fee & all other expenses

General Information

Launch Date:	January 22, 2007
Fund Size:	Rs. 2,075 million
Type:	Open-end – Balance Fund
Dealing:	Daily
Settlement:	2-3 business days
Load:	Front end – 3%, Back end - 0%
Management Fee:	2.5% per annum
Listing:	Lahore Stock Exchange
Trustee:	Central Depository Company
Auditors:	A. F. Ferguson & Co. Chartered Accountants
Benchmark:	50% KSE-30 Index & 50% 1-month KIBOR
Fund Manager:	Adnan Faisal, CFA
Minimum Subscription:	Growth Unit: Rs. 10,000/- Income Unit: Rs. 100,000/-

Asset Allocation (as on 30th November 2008)



Fund Manager's Commentary

Stock Market remained closed for the third consecutive month as the efforts for putting in place a bailout plan remained fruitless. The risk of a system failure in case of Floor removal without adequate buying support aggravated further. This aggravation was mainly on account of loosening domestic economic fundamentals due to further tightening of monetary and fiscal policies.

The fixed income market showed some easing out as the State Bank of Pakistan (SBP) pumped in liquidity through MCR, CRR and SLR adjustments. Moreover, the IMF facility eased the pressure on exchange rate and dollarisation of the economy halted to a great extent. As a result, the over-night lending rates have dropped to single digits.

The long-term debt market (i.e. TFC market) still remained illiquid as the investors stayed away from long-term commitments. On 5th November 2008, SECP instructed the asset management companies to apply a discount on TFC prices for the calculation of Net Asset Values. We believe that this is a temporary phenomenon and as the liquidity position improves, the prices of TFCs would be readjusted upwards.

It is expected that with the downward adjustment in commodity prices and the impact of base effect from January 2009 onwards, the inflation numbers would start showing significant improvement. On the back of this expectation, we feel that by the third quarter of fiscal year 2008-2009, SBP might lower its policy rate.

The downward adjustment in policy rate is the key to overall revival of domestic economy, the debt markets and the Stock Market. With a downwards adjustment in interest rate, the cost of doing business goes down and the asset prices will appreciate.

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National Fullerton Asset Management Limited

NAFA Stock Fund (NSF)

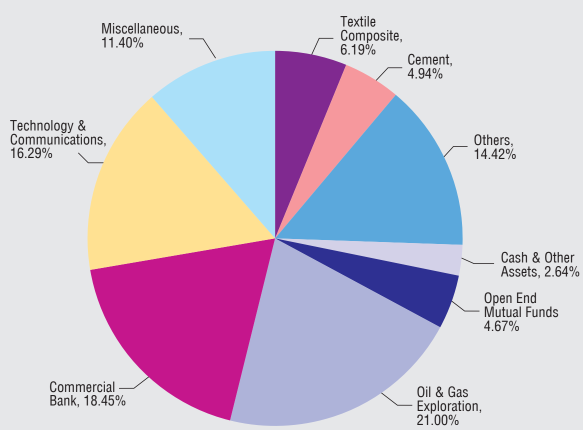
November 2008

Investment Objective	Performance					
To provide investors with long term capital growth from an actively managed portfolio invested primarily in listed companies in Pakistan. The risk profile of the Fund will be moderate to high.	**Return (%)***	**Jan - Dec 2007**	**Jan - Jun 2008**	**Jul - Sep 2008**	**Sep 2008**	**Since Launch** till Sept 30, 2008
	NAFA Stock Fund	**61.59%**	**-14.04%**	**-26.16%**	**-0.43%**	**2.57%**
	Benchmark	24.82%	-14.30%	-29.75%	-1.31%	-24.85%
	* Returns are net of management fee & all other expenses					

General Information

Launch Date:	January 22, 2007
Fund Size:	Rs. 1,521 million
Type:	Open-end - Equity Fund
Dealing:	Daily
Settlement:	2-3 business days
Load:	Front end - 3%, Back end - 0%
Management Fee:	3% per annum
Listing:	Lahore Stock Exchange
Custodian & Trustee:	Central Depository Company
Auditors:	A. F. Ferguson & Co. Chartered Accountants
Benchmark:	KSE-30 Index
Fund Manager:	Khurram Shehzad, CFA
Min. Subscription:	Growth Unit: Rs. 10,000/- Income Unit: Rs. 100,000/-

Asset Allocation (as on 30th November 2008)



Fund Manager's Commentary

On November 27, 2008 the Stock Market completed three months of frozen status. Volumes touched historic lows and whatever activity occurred was in the Off-Market. Desperate sellers submitted to the wishes of bargain hunters and offloaded their holdings at steep discounts to the current market values.

Globally, the liberal consumption led growth resulted in a Commodity Super Cycle that lasted for almost five years and eventually gave way to one of the worst global recessions. Most of the governments across the globe came to the rescue of financial markets to avoid system failures.

Slowing down in global economy has also adversely affected the commodity prices, which have fallen by almost 50% across the board. Global demand slow-down is on its way and the equity markets have already discounted that.

Global equity markets have to-date declined in the range of 55% to 70% from their highs. Price to Earnings Ratios (PER) also depict this global equity investor sentiment. Countries like China and Russia touched a PER of around 3x and USA came down to a PER of 11x. From these global developments, it is inferred that economies which were on a steeper growth path witnessed a steeper downturn.

Our downturn was made steeper due to the delay in macro-economic decision making by the Government. However, we believe that after the IMF endorsement, funds from donor agencies will also flow in. This is expected to generate domestic liquidity of up to Rs.400 billion over the next 6 months. Thus, restoring investors' confidence for investment in different asset classes. We believe that an economic recovery may be witnessed over the next 12 months.

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NAFA Islamic Income Fund (NIIF)

National Fullerton Asset Management Limited

Unit Price (30/11/2008): Rs. 8.7930 November 2008

Investment Objective

To seek maximum possible preservation of capital and a reasonable rate of return via investing primarily in Shariah Compliant money market & debt securities having good credit rating and liquidity.

Performance

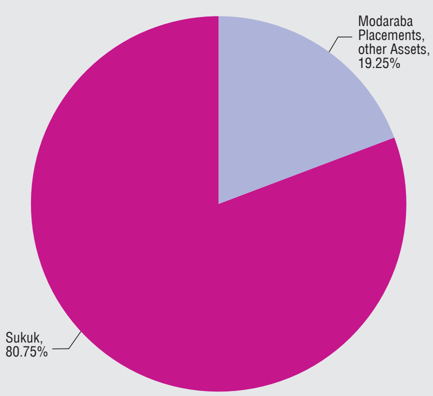
Annualized Performance (%)*	Jan - Jun 2008*	Jul - Sep 2008*	Oct 2008*	Nov 2008**	Since Launch October 29, 2007***
NAFA Islamic Income Fund	**8.62%**	**10.62%**	**12.48%**	**(13.76)%**	**(5.67)%**
Benchmark (Average 1-month deposit rate of Islamic Banks)	5.31%	5.46%	5.84%	0.51%	5.99%
Profit on Rs. 100,000 invested	Rs. 4,209	Rs. 2,577	Rs. 1,004	Rs. (13,760)	Rs. (5,672)

* Represents Annualized Return
** Represents cumulative Return for the month only
*** Represents cumulative Return since inception
(Returns are net of management fee & all other expenses)

General Information

Launch Date:	October 29, 2007
Fund Size:	Rs. 570 million
Type:	Open-end – Fixed Income Fund
Dealing:	Daily
Settlement:	2-3 business days
Load:	Front end - 1.0%
Management Fee:	1.5% per annum
Listing:	Lahore Stock Exchange
Custodian & Trustee:	Central Depository Company (CDC)
Auditors:	A. F. Ferguson & Co. Chartered Accountants
Benchmark:	Average 1-month deposit rate of Islamic Banks
Fund Manager:	Sajjad Anwar, CFA
Min. Subscription:	Growth Unit: Rs. 10,000/- Income Unit: Rs. 100,000/-

Asset Allocation (as on 30th November 2008)



Fund Manager's Commentary

As per directives of Securities & Exchange Commission of Pakistan (SECP) dated November 5, 2008, issued to all Asset Management Companies, NAFA Islamic Income Fund's (NIIF) Sukuk Portfolio was revalued. The revaluation has resulted in a downward adjustment of around 15.5 % in the Net Asset Value of the Fund. As per the Circular, the revaluations of debt securities at discounted rates will be effective till January 12, 2009.

During the month of November 2008, NAV of NIIF was down by 13.76%. Due to the mark-down in the value of the sukuk portfolio, through a book entry only and without any effect on the cash flows, weighted average Yield To Maturity (YTM) on the sukuk portfolio has increased to 27.02% p.a. As liquidity improves in the system, Sukuk prices will reverse back to the level where they were prevailing before the SECPs' Circular was issued.

The attached chart shows asset allocation of the Fund as on November 30, 2008. Sukuk accounts for 80.75% of the Fund size compared to 83.93% during the previous month and investment in Modaraba placements comprises 19.25% of the Fund size.

The State Bank of Pakistan in its recent monetary policy announcement in November 2008, increased policy rate by 2.00% to 15.00% from 13.00%. In anticipation of increase in the policy rate, KIBORs of different tenors started moving up and 6-month KIBOR closed the month at 15.67% compared to 15.10% previous month.

Going forward, we expect the profit rate on the Fund to improve further due to: (i) increase in yield on the sukuk portfolio; (ii) further resetting of sukuks' coupons at the prevailing KIBOR; and (iii) attractive rates on the mudaraba placements.

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NAFA Islamic Multi Asset Fund (NIMF)

National Fullerton Asset Management Limited

November 2008

Investment Objective

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.

Performance

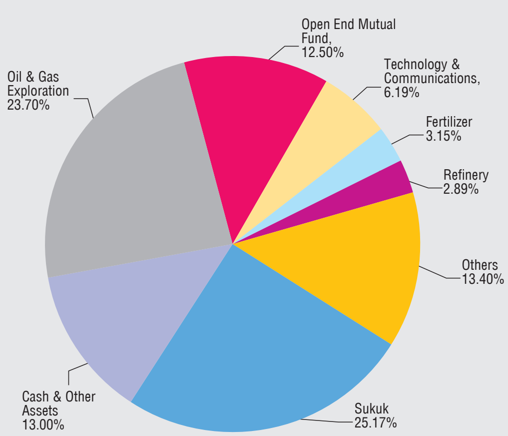
Return (%)*	Jan - Jul 2008	Jul - Sep 2008	Aug 2008	Sep 2008	Since Launch Oct 29, 2007 to Sept 30, 2008
NAFA Islamic Multi Asset Fund	**-6.96%**	**-10.63%**	**-5.69%**	**-0.23%**	**-14.78%**

*Returns are net of management fee & all other expenses

General Information

Launch Date:	October 29, 2007
Fund Size:	Rs. 513 million
Type:	Shariah Compliant - Open-end Balanced Fund
Dealing:	Daily
Settlement:	2-3 business days
Load:	Front end - 3%, Back end - 0%
Management Fee:	3% per annum
Listing:	Lahore Stock Exchange
Trustee:	Central Depository Company
Auditors:	A. F. Ferguson & Co. Chartered Accountants
Fund Manager:	Abdul Rehman Warraich
Min. Subscription:	Growth Unit: Rs. 10,000/- Income Unit: Rs. 100,000/-

Asset Allocation (as on 30th November 2008)



Fund Manager's Commentary

During the first week of the month, the Securities & Exchange Commission directed all open end mutual funds to mark-down the prices at which TFCs and Sukuk bonds were recorded in their books. Statedly, it was done to reflect the illiquid conditions prevailing in the secondary market for TFCs & Sukuks. The TFCs and Sukuks held by mutual funds have been issued by highly rated and profitable companies. We believe that most of the investors understand that these mark-to-market losses will be erased once the liquidity crunch is over.

The macroeconomic situation is stabilizing. First tranche of the IMF facility has been received and more foreign exchange inflows (from World Bank, ADB etc.) are in the pipeline. Inflation is also expected to fall over the next few months. We expect that the liquidity situation in the domestic financial sector will improve and the prices of TFCs and Sukuks will recover over the next few months.

The Floor placed under the stock prices has not been removed yet. We hope that the stabilization fund worth Rs. 20 billion will soon become operational. This fund will provide some stability to the Stock Market when the floor is removed.

Economic revival may take some time. Positive signals of economic recovery should come from a stable exchange rate, better performance of the agriculture sector and higher domestic demand in response to falling prices.

In the very short-term, however, profit rates on Shariah Compliant debt instruments (including sukuks and mudarabah placements) remain high. We intend to remain underweight in equities and overweight in debt instruments until the focus of economic policy shifts away from inflation and towards economic growth.

NAFA Income Fund (NIF)

National Fullerton Asset Management Limited

Unit Price (30/11/2008): Rs. 9.2895

November 2008

Investment Objective

To earn a competitive rate of return while preserving capital to the extent possible by investing in liquid assets.

Performance

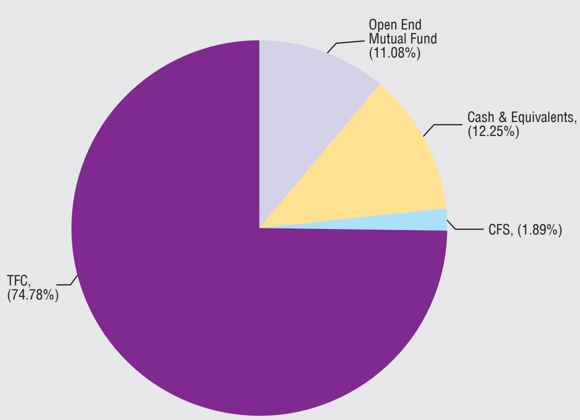
Performance (%)*	Apr - Jun 2008*	Jul - Sep 2008*	Oct 2008*	Nov 2008**	Since Launch March 29, 2008***
NAFA Income Fund	**8.50%**	**11.06%**	**14.37%**	**(8.19)%**	**(2.64)%**
Benchmark	10.89%	12.90%	13.31%	1.10%	8.19%
Profit on Rs. 100,000 invested	Rs. 2,055	Rs. 2,680	Rs. 1,147	Rs. (8,193)	Rs. (2,643)

* Represents Annualized Return
** Represents cumulative Return for the month only
*** Represents cumulative Return since inception
(Returns are net of management fee & all other expenses)

General Information

Launch Date:	March 29, 2008
Fund Size:	Rs. 1,193 million
Type:	Open-end – Fixed Income Fund
Dealing:	Daily
Settlement:	2-3 business days
Load:	Front end: 1.0%
Management Fee:	1.5% per annum
Listing:	Lahore Stock Exchange
Custodian & Trustee:	Central Depository Company (CDC)
Auditors:	A. F. Ferguson & Co.
Benchmark	3-Month T-Bills
Fund Manager:	Mr. Ahmad Nouman
Minimum Subscription:	Growth Unit: Rs. 10,000/- Income Unit: Rs. 100,000/-

Asset Allocation (as on 30th November 2008)



Fund Manager's Commentary

During the month of November 2008, NAV of NAFA Income Fund (NIF) has declined by 8.19%. This was because of SECP's November 5th Circular directing all Asset Management Companies (AMCs) to mark-down their Term Finance Certificates (TFCs) portfolio. The mark-down was linked to credit ratings and ranged from 5.00% to 30.00%. This order of SECP can be traced to the liquidity shortage in the financial sector.

On the flip side, this has provided a very lucrative opportunity to: (i) existing unit holders to increase their investment in NIF; and (ii) new investors, as future expected returns are now even higher at current unit prices.

For the confidence and education of our investors, we would like to explain that the issuers of TFCs in our portfolio will still repay the same amount to your Fund as promised earlier. However, due to the short-term liquidity shortage in the financial sector TFCs' prices are temporarily depressed, so is your Fund's NAV. With same coupon streams, this implies higher yields and enhanced expected return. Another comforting factor is the Government guarantee on all TFCs rated 'A' and above for one year. The weighted average credit rating of the TFCs' portfolio in your Fund is 'AA-' which signifies very high credit quality.

After receiving the IMF loan, Pakistan's Balance of Payments situation is much more secure. Going forward, loans from multi-lateral agencies like World Bank, ADB and expected Foreign Direct Investment will stabilize the domestic liquidity situation. This is likely to result in TFC prices reversing to their previous levels in due course of time.

During the month, the State Bank of Pakistan (SBP) increased the Discount Rate to 15.00% from 13.00%. 6-M KIBOR has accordingly increased to 15.67% from 15.10% a month earlier. This indicates higher future returns for your Fund, as TFCs' coupons will be reset at higher KIBOR level.