

NAFA Funds

Monthly Report (October 2008)



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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

Investment Outlook

Dr. Amjad Waheed, CFA
Chief Executive Officer

Pakistan's Economic Challenges and Capital Markets

Reduction in foreign exchange reserves, rising of discount rate, CRR and SLR for banks by the State Bank of Pakistan, and panic withdrawal of deposits from banks caused a serious liquidity crisis in the market in October. Steps recently taken by the State Bank of Pakistan, including reduction in CRR by 3%, has helped improved the situation. However, any further significant liquidity easing is based on the timing and size of foreign assistance that is expected from IMF, donor agencies such as the World Bank and the Asian Development Bank, and possibly "Friends of Pakistan" countries.

As a result of the liquidity crunch and loss of investors' confidence due to falling foreign exchange reserves, the Pakistan Stock Market has lost 42% of its value from its peak in April, 2008, and the Pakistani Rupee has devaluated by 32% from its peak in January, 2008. Due to fears of default of several brokerage houses, and its implications on the entire system, the Karachi Stock Exchange decided to impose a floor on the stock exchange from August 27, 2008.

Mutual funds with a direct exposure in the Stock Market continued to pay redemptions for some time even after the Stock Market was frozen. However, it was not possible to continue to do so indefinitely for two reasons. First, the general consensus was that whenever the Stock Market will open, it will drop sharply by 15%-20%. Thus, those who were redeeming at the unit price, which was not reflective of the real valuations of the underlying shares, were doing so at the expense of those who decided to remain invested in the equity-related funds. Second, the normal course available to mutual funds to meet redemptions, which is selling shares in the Stock Market and paying off investors, was not available due to the market freeze. Thus, the Mutual Fund Association of Pakistan in consultation with the Securities & Exchange Commission of Pakistan, decided to suspend issuance and redemption of units of funds with a direct equity exposure till the 3rd day after removal of the floor.

This news was misreported by the media, giving an impression that all open-end funds are being suspended, which even resulted in panic selling in income / cash funds, which were not suspended. The liquidity crunch in the market also forced some investors to redeem from their income / cash funds. NAFA is proud that it paid off all redemptions to its investors, on average, in two business days. It also maintained its track record that the unit price of its income / cash funds did not drop by even one paisa on any day since these funds were launched. The annualized return on the income / cash funds has been in the range of 12% - 14% in October and is expected to improve over the next few months. Those investors who redeemed due to panic are now considering reinvesting in our funds. Investors have also got a good comfort level by the Government of Pakistan guaranteeing Term Finance Certificates (TFCs) rated A and above owned by cash / income mutual funds for a period of one year.

We expect that November will be a turning point for the economy and capital markets following expected inflow of financial assistance from the IMF and other donor agencies and countries. Even US\$ 3 billion of improvement in the country's foreign exchange reserves will inject around Rs 250 billion of liquidity in the system. This will help banks provide additional financing to the private sector and some of this will trickle down to the Stock Market and mutual funds as well. However, it will take the economy a couple of years to revert back to a growth rate of 6% per annum or better. It will take even longer to build back the country's reputation as Pakistan's credit rating has been lowered from B+ to CCC+ by Standard & Poor's in a short span of one year.



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NAFA Cash Fund (NCF)

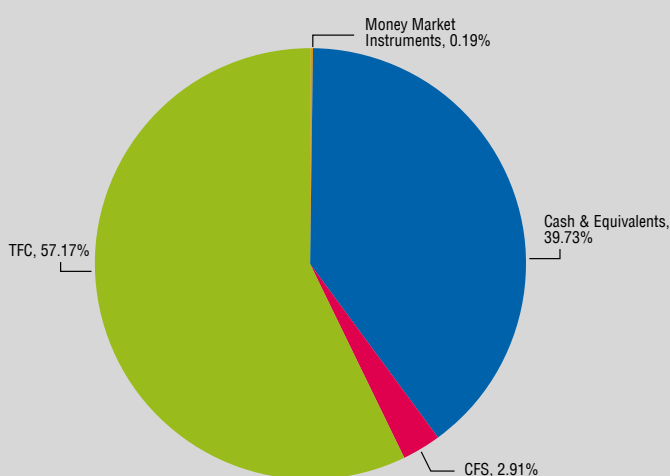
Unit Price (31/10/2008): Rs. 10.1404

October 2008

Investment Objective	Performance					
	Annualized Performance (%)*	Jan - Jun 2008	Jul - Sep 2008	Sep 2008	Oct 2008	Since Launch April 22, 2006
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.	NAFA Cash Fund	9.88%	11.78%	11.94%	12.04%	10.51%
	Benchmark	11.20%	14.10%	14.80%	15.35%	10.81%
	Profit on Rs. 100,000 invested	Rs. 4,812	Rs. 2,846	Rs. 931	Rs. 970	**Rs. 28,790
	* Returns are net of management fee & all other expenses ** Represents cumulative profit since inception					

General Information		Fund Manager's Commentary
Launch Date:	April 22, 2006	NAFA Cash Fund has completed 30 months of operations in October. It remains the best performing fund, in terms of risk-adjusted return since inception among its peer group. The unit price has not dropped by even one paisa on any day since the launch of the Fund. NAFA Cash Fund has earned an annualized return of 12.04% in October. Weighted average rating of NAFA Cash Fund's TFC portfolio is "AA-".
Fund Size:	Rs. 14,338 million	
Type:	Open-end – Fixed Income Fund	
Dealing:	Daily	
Settlement:	2-3 business days	
Load:	No entry or exit load	The freeze of all funds invested directly in the Stock Market by SECP raised concerns among investors regarding money market and income funds. Due to misreporting by some newspapers, fixed income funds witnessed redemptions from different investors. We paid back the redemptions on an average of 2 business days. This has given comfort to investors and we expect these investors to soon re-invest in the Fund as the liquidity situation improves in the market and the investors' confidence revive. Going forward, we expect restoration of confidence in capital markets as international financial assistance to Pakistan becomes available.
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	The month of October started with severe liquidity crunch for the financial sector. The situation has largely reverted back to normal by the month-end, thanks to the easing policies of SBP including 4% reduction in CRR (3% in October, 1% announced for November), and exemption of 1-year and above Time and Deposit liabilities of commercial banks from SLR.
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 31st October 2008)



During the month of October, the 6-Month KIBOR closed at 15.10% versus 14.52% in the previous month. The reason behind volatility in KIBOR was liquidity crunch witnessed during the month.

The attached Chart shows the asset allocation of the Fund. We expect the Fund's return to improve further over the next couple of months.

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



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NAFA Multi Asset Fund (NMF)

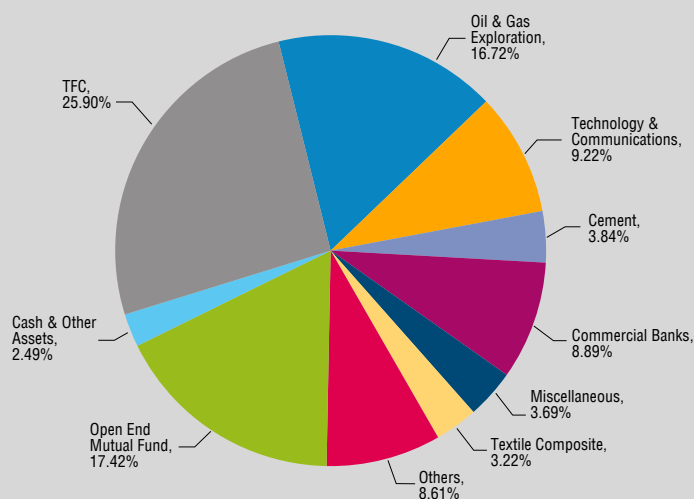
October 2008

Investment Objective	Performance					
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.	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	Fund Manager's Commentary
<p>Launch Date: January 22, 2007</p> <p>Fund Size: Rs. 2,165 million</p> <p>Type: Open-end – Balance Fund</p> <p>Dealing: Daily</p> <p>Settlement: 2-3 business days</p> <p>Load: Front end – 3%, Back end - 0%</p> <p>Management Fee: 2.5% per annum</p>	<p>Continuity of Price Floor mechanism at the stock exchanges eventually affected the open-end equity funds as well. All open-end funds which have direct exposure to the Stock Market suspended the announcement of Net Asset Values, sale of units and redemption of units. This will continue until three days after the price floors are removed and the Stock Market becomes fully functional.</p> <p>During the month, the government committed funds worth Rs. 50 billion in order to provide support and stability to the Stock Market. It is expected that the price floor will be removed once those funds are in place. Elsewhere in the world, governments have intervened to provide confidence and liquidity to their financial markets.</p> <p>The liquidity crunch witnessed in the money market during the earlier part of this month has eased off towards the end of the month as a result of the measures taken by SBP, including lowering of reserve ratio.</p>
<p>Listing: Lahore Stock Exchange</p> <p>Trustee: Central Depository Company</p> <p>Auditors: A. F. Ferguson & Co. Chartered Accountants</p> <p>Benchmark: 50% KSE-30 Index & 50% 1-month KIBOR</p> <p>Fund Manager: Adnan Faisal, CFA</p> <p>Minimum Subscription: Growth Unit: Rs. 10,000/- Income Unit: Rs. 100,000/-</p>	

Asset Allocation (as on 31st October 2008)



Falling international prices of commodities and a depreciating currency should reduce the current account deficit significantly over the next two years, thus improving the overall economic situation.

The key positive factors for the market are expected IMF facility and Rs. 50 billion government package. We expect these two positives can help shore up the much needed confidence and liquidity in the market.

The current price levels are fairly attractive. Therefore, additional liquidity and investor confidence can bring life back into market.

Our strategy will be to maintain policy weights and increase our weight in equities once clarity in the market trend is established.

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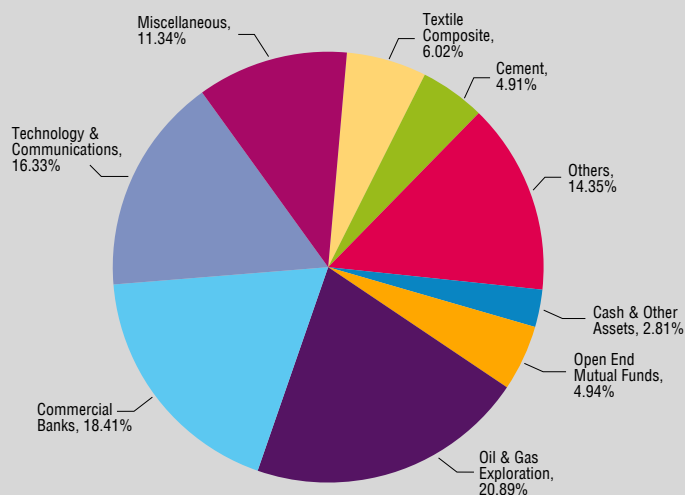
NAFA Stock Fund (NSF)

October 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	Fund Manager's Commentary
<p>Launch Date: January 22, 2007 Fund Size: Rs. 1,529 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</p>	<p>The Stock Market indices remained frozen throughout the month as the Price Floor mechanism continued. The volumes almost reflected the de-facto closed status of the market. As on October 7, 2008 the issuance and redemption of units in all open-end equity funds' units was suspended. The open-end equity funds were unable to liquidate their positions and pay off redemptions due to the frozen status of the Stock Market.</p>
<p>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/-</p>	

Asset Allocation (as on 31st October 2008)



Going forward, the domestic macro-economy is expected to stabilize due to the structural adjustments made by the Government and decline in global commodity prices. As a result of structural adjustments, the Rupee is likely to stabilize and inflation is expected to taper off. However, GDP growth will take some time to rise again.

The domestic banking sector witnessed a massive liquidity injection by the State bank of Pakistan, which eased the pressure on inter-bank transactions but few smaller banks had to merge to mitigate their growing liquidity crises.

It is expected that the Price Floor mechanism will be removed pursuant to the IMF facility and Rs. 50 billion Stock Market package. In this scenario, the market might not witness a significant downside pressure as the current price levels are fairly attractive in terms of valuations.

We believe that the current situation is not worse than 1998. The Stock Market recovered 47% from July 1998 to July 1999 after dropping by 56% from February 1998 to July 1998. We expect partial recovery in the Stock Market as the economy improves.

We expect NAFA Stock Fund to show better performance than the Stock Market, as the Fund holds securities that are trading at very attractive levels.

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NAFA Islamic Income Fund (NIIF)

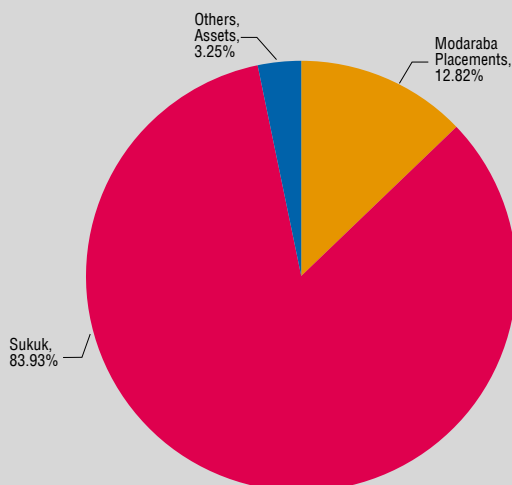
Unit Price (31/10/2008): Rs. 10.1958

October 2008

Investment Objective	Performance					
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.	Annualized Performance (%)*	Jan - Jun 2008	Jul - Sep 2008	Sep 2008	Oct 2008	Since Launch October 29, 2007
	NAFA Islamic Income Fund	8.62%	10.62%	10.79%	12.48%	9.27%
	Benchmark (Average 1-month deposit rate of Islamic Banks)	5.31%	5.46%	5.80%	5.84%	5.39%
	Profit on Rs. 100,000 invested	Rs. 4,209	Rs. 2,577	Rs. 845	Rs. 1,004	**Rs. 9,377
*Returns are net of management fee & all other expenses **Represents cumulative profit since inception						

General Information		Fund Manager's Commentary
Launch Date:	October 29, 2007	During the month of October 2008, NAFA Islamic Income Fund (NIIF) generated an annualized return of 12.48% compared to 10.80% during the previous month, translating into an improvement of 1.69%. Annualized return of 12.48% offered by NIIF during the outgoing month is 6.64% better than the average 1-month profit rate of 5.84% offered by the Islamic banks.
Fund Size:	Rs. 667 million	
Type:	Open-end – Fixed Income Fund	
Dealing:	Daily	
Settlement:	2-3 business days	
Load:	Front end - 1.0%	In order to provide comfort to mutual fund investors, the Government of Pakistan has guaranteed the "A" rated and above Sukuks and TFCs for a period of one year. So by investing in NIIF, you are enjoying returns equivalent to a portfolio invested in corporate securities, which is now guaranteed by the Government.
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	The 6-Month KIBOR remained volatile during the month, and closed at 15.10%. Capital market faced severe liquidity crunch during the month, which resulted in record high overnight lending and repo rates. However, liquidity conditions improved considerably following the decrease in CRR and adjustment in the SLR by the State Bank of Pakistan.
Fund Manager:	Sajjad Anwar, CFA	
Min. Subscription:	Growth Unit: Rs. 10,000/- Income Unit: Rs. 100,000/-	

Asset Allocation (as on 31st October 2008)



With the resetting of some of the sukuk portfolio during the month, weighted average annualized yield of the sukuk portfolio has increased to 15.71%. Our entire long-term mudaraba placements have matured at the end of the month. These funds are now placed at substantially higher profit rates.

Going forward, we expect the profit rate on the Fund to improve further due to increasing profit on the mudaraba placements and further resetting of sukuk portfolio at the prevailing KIBOR.

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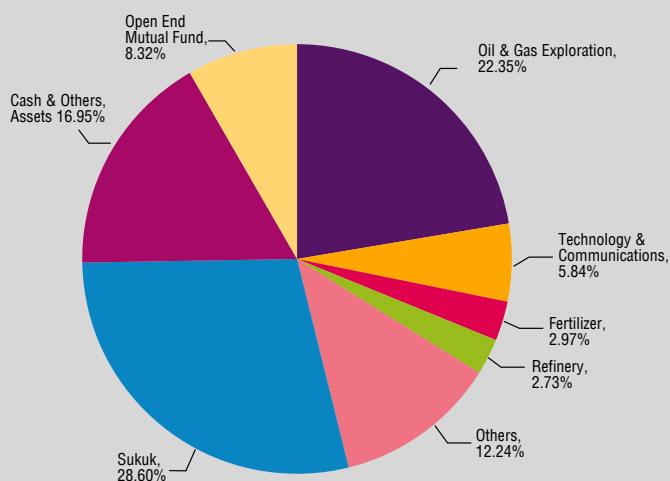
NAFA Islamic Multi Asset Fund (NIMF)

October 2008

Investment Objective	Performance					
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.	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		Fund Manager's Commentary
Launch Date: Fund Size: Type:	October 29, 2007 Rs. 544 million Shariah Compliant - Open-end Balanced Fund	The Securities & Exchange Commission of Pakistan put a freeze on sales and redemptions in all open end mutual funds which take direct exposure in the Stock Market. The freeze will continue until three days after the price floor is removed and the Stock Market becomes fully functional. The announcement of Net Asset Value (NAV) of such Funds has also been suspended till that time.
Dealing: Settlement: Load: Management Fee:	Daily 2-3 business days Front end - 3%, Back end - 0% 3% per annum	
Listing: Trustee: Auditors:	Lahore Stock Exchange Central Depository Company A. F. Ferguson & Co. Chartered Accountants	
Fund Manager: Min. Subscription:	Abdul Rehman Warraich Growth Unit: Rs. 10,000/- Income Unit: Rs. 100,000/-	The Stock Market remained dull and illiquid during the month. The macroeconomic situation remains very challenging in the near term. Balance of payments crisis, weakening currency, high budget deficit, huge debt repayment burden and high inflation have confounded the policy makers. Domestic demand has been hit hard by higher prices and interest rates. However, there is a silver lining. Significant reduction in domestic demand combined with falling international prices should result in lower budget and trade deficits and lower inflation going forward. The Rs. 50 billion package announced by the government should help restore some confidence among investors.

Asset Allocation (as on 31st October 2008)



The first quarter of the current fiscal year saw a liquidity crunch. There was a reduction in the deposit base of the banking sector due to a combination of seasonal withdrawals, financing of external account deficit through domestic liquidity and the panic buying of dollars. We expect this situation to ease once the money from IMF flows in and the exchange rate stabilizes.

Profit rates on Shariah Compliant debt instruments (including sukuks and mudarabah placements) remained high during the month. Our portfolio is underweight in equities and overweight in debt instruments. We intend to maintain this strategy until the stock market stabilizes and economic data suggests lower inflation and an easing of monetary policy going forward.

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NAFA Income Fund (NIF)

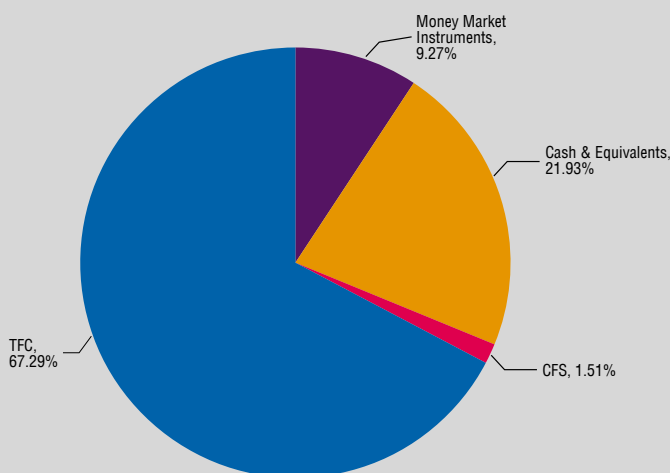
Unit Price (31/10/2008): Rs. 10.1185

October 2008

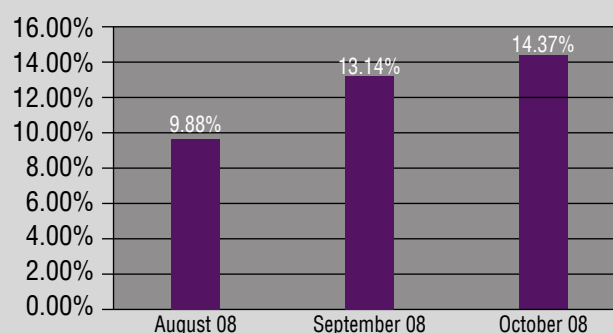
Investment Objective	Performance					
	Annualized Performance (%)*	Apr - Jun 2008	Jul - Sep 2008	Sep 2008	Oct 2008	Since Launch March 29, 2008
To earn a competitive rate of return while preserving capital to the extent possible by investing in liquid assets.	NAFA Income Fund	8.50%	11.06%	13.14%	14.37%	10.38%
	Benchmark	10.89%	12.90%	13.32%	13.31%	12.07%
	Profit on Rs. 100,000 invested	Rs. 2,055	Rs. 2,680	Rs. 1,020	Rs. 1,147	**Rs. 6,045
	* Returns are net of management fee & all other expenses ** Represents cumulative profit since inception					

General Information		Fund Manager's Commentary
Launch Date:	March 29, 2008	NAFA Income Fund has earned an annualized return of 14.37% during the month of October, 2008. The return earned during the month is approximately 123 basis points better than return earned during the last month (see attached chart). Your Fund has maintained the upward improvement in its return due to prevailing higher KIBOR. NAFA Income Fund has invested 67.29% of its fund size in Term Finance Certificates, which is carrying weighted average rating of "AA-" and its coupon rates are linked to KIBOR. Going forward, we expect KIBOR to remain at these levels, and hence, the return of your Fund is expected to remain attractive.
Fund Size:	Rs. 1,517 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 31st October 2008)



Annualized Return



The month of October started with severe liquidity crunch for the financial markets. However, the situation has largely reverted back to normal by the month-end, thanks to the easing policies of SBP including reduction in CRR. The six month KIBOR at October-end has increased to 15.10% as compared to 14.52% a month earlier.

In order to take advantage of the current interest rate scenario, NAFA Income Fund will continue to maintain short duration of the Fund.

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