

NAFA Funds

Monthly Report (April 2009)



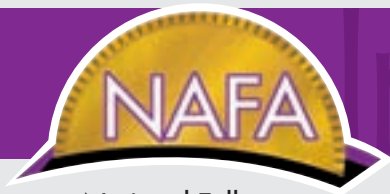
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Investment Outlook

Dr. Amjad Waheed, CFA
Chief Executive Officer

Summer Brings Rising Uncertainty

Pakistan offers mixed prospects while we enter the summer of 2009. On the economic front, almost all statistics show improving trends. Budget deficit, trade deficit, current account deficit, inflation, interest rates, foreign exchange reserves, liquidity status, etc., show that the bleeding we experienced in the first half of FY 2009 (Jul-Dec., 2008) has stopped, and we have entered a phase of consolidation. The next phase that the country is expected to enter in FY 2009-10 is that of "growth". Economic growth has suffered a lot in FY 2008-9, which is evident from two factors. Private sector borrowing had declined to Rs.92.5 billion in the first 8 months of FY 2008-9 relative to Rs.320 billion in the first 8 months of FY 2007-8. The overall economic growth rate is expected to be around 2.5% in FY 2008-9 versus 5.95% in FY 2007-8.

In FY 2009-10 the overall economic growth rate is projected to improve to around 4%. Two factors are expected to support this improvement. First, inflation (Sensitive Price Index) has declined substantially from around 32% in August 2008 to around 20% at present. This is projected to decline further to 12% in June 2009. In FY 2010, inflation is expected to be in single digits. This will enable the State Bank of Pakistan to further ease the monetary policy, thus providing stimulus for growth. KIBOR is expected to be under 10% in FY 2009-10, which will enable businesses to expand again. Second, the Government of Pakistan is expecting substantial foreign assistance from "Friends of Pakistan" and donor agencies, adding up to several billion dollars in the near future. This will enable the government to substantially increase development spending and possibly also reduce oil prices. This will not only help economic growth, but will also increase the liquidity in the system, some of which will spill over to the stock, TFC and real estate markets. Thus the recovery in asset prices, which started in January 2009, is expected to continue in FY 2009-10.

There is, however, a risk looming over this expected recovery. And that is the law and order situation in the country. There is a possibility of a major military operation in Swat and FATA regions sometime this summer. This expected operation may last a couple of months. The repercussions of such an operation may be felt in the streets and capital markets of the country. It is expected that the military operation will be followed by the strengthening of the civil administration, the police, the traditional tribal system and the judiciary in these areas. A large chunk of foreign assistance will be injected in these regions to create jobs and improve human and physical infrastructure. There is a strong possibility that such an operation, backed by a large majority of the Pakistani population including the residents of these regions, and supported by ample foreign economic assistance, will be successful in improving the law and order situation of the country.

The stock market volatility may rise in anticipation of a military operation and / or at the time of launch of such an operation. However, this will be a temporary phenomenon, and the market is expected to recover on first signs of success of the operation. NAFA has reduced equity exposure in its Stock and Multi Asset Funds, and is watching the situation closely to further reduce the equity exposure if such a scenario develops. However, this will be a temporary change of strategy linked to an expected event of military operation in the Swat and FATA regions. We still believe that the stock market is at very attractive levels at present, and feel that it will close CY 2009 at a higher level than where it is at present.

NAFA Stock Fund has already risen by 54% from its bottom level achieved only about 3 months ago, whereas NAFA Multi Asset Fund has risen by 39% from its bottom level. We advise our investors in funds with an equity exposure to remain invested for a longer period of time to recover losses that they might have experienced in 2008 due to a huge fall in the stock market. NAFA funds are bouncing back and we expect this trend to continue in 2009 and beyond, although in between there will be times where the stock market will experience increased volatility and corrections.



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NAFA Cash Fund (NCF)

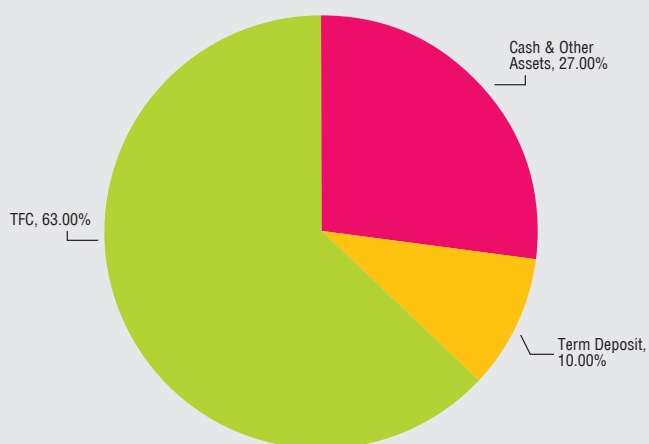
Unit Price (30/04/2009): Rs. 9.8904

April 2009

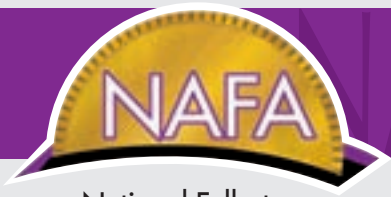
| Investment Objective | Performance | | | | | | |
|---|---|-----------------|-----------------|------------------|-----------------|-----------|-------------------------------|
| | To seek preservation of capital and earn a reasonable rate of return via investing in money market and debt securities with investment-grade rating, CFS and spread transactions. | Performance (%) | Jan - Jun 2008* | Jul - Dec 2008** | Jan - Mar 2009* | Apr 2009* | Since Launch April 22, 2006** |
| | | NAFA Cash Fund | 9.88% | (1.80)% | 17.61% | 14.32% | 28.17% |
| | | Benchmark | 11.20% | 7.17% | 13.51% | 14.25% | 38.52% |
| * Represents Annualized Return ** Represents Cumulative Return (Returns are net of management fee & all other expenses) | | | | | | | |

| General Information | | Fund Manager's Commentary |
|-----------------------|---|---|
| Launch Date: | April 22, 2006 | <p>NAFA Cash Fund earned an annualized return of 14.32% during the month of April. The return earned during the month is 5.80% better than the peer group and 0.07% better than the benchmark.</p> <p>During the month of April, the State Bank of Pakistan released a monetary policy statement for the last quarter of FY2009. The Central Bank has reduced the discount rate by 100 basis points to 14%. The discount rate was reduced on the basis of gradual decline in inflation and improving economic figures. As per the expectation of the Central Bank, average inflation (CPI) will be 14% in Q4 FY09 (Monetary Policy Statement, April-June 2009).</p> <p>A significant development during the month was discontinuation of the CFS MK II. The CFS was one of the very attractive returns earning avenue for the fixed income funds. Now the focus of Fixed Income funds will be primarily on bank deposits and Term Finance Certificates.</p> <p>The 6-month KIBOR, after touching a low of 12.43% in the month of March, witnessed rising trend and closed at 13.35%. The increase in the KIBOR was on the back of liquidity shortage in the market and due to increase in the cut-offs in the T-Bill auction during the month.</p> <p>Interest rates are expected to decline in the coming months due to the following factors (1) expected increase in the liquidity in the system; (2) gradual decline in the inflation; (3) expected aid from Friends of Pakistan; (4) further expected cut in the discount rate as inflation is on the gradual decline.</p> <p>We expect that NAFA Cash Fund will maintain the outperformance trend in the coming months on the basis of attractive coupon rates and expected capital gains on its Term Finance Certificates portfolio.</p> |
| Fund Size: | Rs. 9,072 million | |
| Type: | Open-end – Fixed Income Fund | |
| Dealing: | Daily - Monday to Friday | |
| Settlement: | 2-3 business days | |
| Load: | No entry or exit load | |
| Management Fee: | 1.5% per annum | |
| 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 (on 30th April 2009)



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NAFA Multi Asset Fund (NMF)

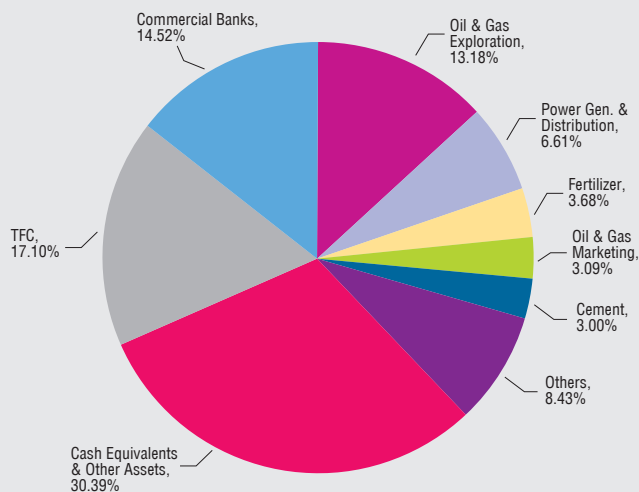
NAV Unit Price (30/04/2009): Rs. 8.9556

April 2009

| 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. | Performance (%)* | Jan - Dec 2007 | Jan - Dec 2008 | Jul - Mar 2008 - 09 | Apr 2009 | Since Launch January 22, 2007 |
| | NAFA Multi Asset Fund | 44.06% | (39.82)% | (20.28)% | 1.14% | 9.29% |
| | Benchmark (50% KSE-30 Index & 50% 1-month KIBOR) | 17.50% | (38.22)% | (23.40)% | 2.83% | (11.50)% |
| *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. 1,832 million</p> <p>Type: Open-end – Balance Fund</p> <p>Dealing: Daily - Monday to Friday</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>During the month under review, NAFA Multi Asset Fund's (NMF) Net Asset Value (NAV) increased by 1.14% while the benchmark (50% KSE-30 index & 50% 1-month KIBOR) increased by 2.83%. Thus, your Fund under-performed the benchmark by 1.69% during the month. Since inception on January 22, 2007, your Fund has increased by 9.29%, while the benchmark has declined by 11.50%. Thus, to date, the out-performance of your Fund stands at 20.79%.</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: Khurram Shehzad, CFA</p> <p>Minimum Subscription: Growth Unit: Rs. 10,000/- Income Unit: Rs. 100,000/-</p> | |

Asset Allocation (on 30th April 2009)



On the fixed income side, the Fund remained invested in TFCs on average 17% of its size, and the rest of the liquidity was placed in overnight bank placements to capitalize upon tight liquidity position in the domestic financial sector.

The equity market displayed volatile behavior during the last few days of the month. Although the valuations are attractive, the overall sentiments are depressed. This contradiction kept the market volatile. Keeping in view the current market situation, we reduced our weight in equities.

We expect the equities to bounce back once the law & order situation calms down. Once we expect that recovery is around the corner, we will again overweight equities to capitalize upon this upside potential. On the fixed income side, we expect the interest rates to continue their downward journey. Thus, we will maintain our weight in TFCs and may increase it a bit to capitalize upon the falling interest rate and improved liquidity scenario.

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NAFA Stock Fund (NSF)

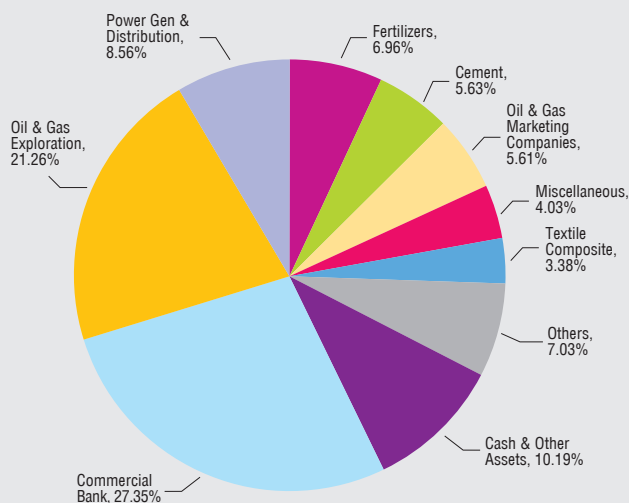
NAV Unit Price (30/04/2009): Rs. 6.4114

April 2009

| 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. | Performance (%)* | Jan - Dec 2007 | Jan - Dec 2008 | Jul - Mar 2008 - 09 | Apr 2009 | Since Launch January 22, 2007 |
| | NAFA Stock Fund | 61.59% | (60.21)% | (43.07)% | 0.89% | (20.21)% |
| | Benchmark | 24.82% | (67.19)% | (48.49)% | 4.11% | (42.63)% |
| * 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. 1,413 million</p> <p>Type: Open-end - Equity Fund</p> <p>Dealing: Daily - Monday to Friday</p> <p>Settlement: 2-3 business days</p> <p>Load: Front end - 3%, Back end - 0%</p> <p>Management Fee: 3% per annum</p> | <p>During the month under review, KSE-30 Index increased by 4.11%, whereas NAFA Stock Fund's (NSF) Net Asset Value (NAV) increased by 0.89%, thus an under-performance of 3.22% was recorded. Since inception on January 22, 2007 the NAV of NSF has declined by 20.21% and the benchmark has declined by 42.63%, thus to date, out-performance is 22.42%.</p> |
| <p>Listing: Lahore Stock Exchange</p> <p>Custodian & Trustee: Central Depository Company (CDC)</p> <p>Auditors: A. F. Ferguson & Co. Chartered Accountants</p> <p>Benchmark: KSE-30 Index</p> <p>Fund Manager: Khurram Shehzad, CFA</p> <p>Min. Subscription: Growth Unit: Rs. 10,000/- Income Unit: Rs. 100,000/-</p> | |

Asset Allocation (on 30th April 2009)



The market remained volatile during the month and the average daily volume increased by around 60% while the average daily traded value during the month jumped by around 81%, which signifies that most of the activity remained confined to blue chip stocks.

On the basis of valuations the market seems attractive, but the overall sentiments are currently keeping the market depressed. These sentiments are mainly driven by the law & order situation in the country. We believe that once the uncertainty over the expected law & order situation clears, the market has the potential to rise significantly.

We believe that the market may remain volatile in the near future, but a significant bearish trend is unlikely. We are mostly invested in high dividend yielding blue chip stocks, which show resilience under such market conditions. We are bullish on the medium-term performance of the stock market.

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NAFA Income Fund (NIF)

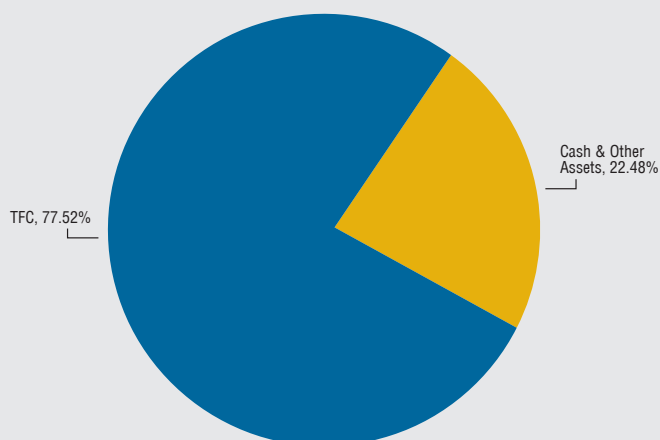
Unit Price (30/04/2009): Rs. 9.8021

April 2009

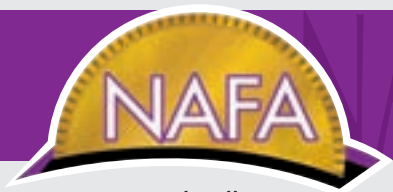
| Investment Objective | Performance | | | | | |
|---|---|-----------------|------------------|-----------------|---------------|-------------------------------|
| | Performance (%) | Apr - Jun 2008* | Jul - Dec 2008** | Jan - Mar 2009* | Apr 2009* | Since Launch March 29, 2008** |
| To earn a competitive rate of return while preserving capital to the extent possible by investing in liquid assets. | NAFA Income Fund | 8.50% | (3.59)% | 15.01% | 10.36% | 2.73% |
| | Benchmark | 10.89% | 6.54% | 13.30% | 13.36% | 14.00% |
| | * Represents Annualized Return ** Represents Cumulative Return (Returns are net of management fee & all other expenses) | | | | | |

| General Information | | Fund Manager's Commentary |
|--|---|--|
| Launch Date: March 29, 2008 Fund Size: Rs. 1,047 million Type: Open-end – Fixed Income Fund Dealing: Daily - Monday to Friday 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: 3-Month T-Bills Fund Manager: Ahmad Nouman Minimum Subscription: Growth Unit: Rs. 10,000/- Income Unit: Rs. 100,000/- | <p>NAFA Income Fund (NIF) has earned an annualized return of 10.36% during the month of April 2009.</p> <p>Liquidity situation in the money markets remained constrained during April as compared to March. This is evident from increase in daily average 6-M KIBOR to 13.28% during April, as against 12.55% during March. Also, the last 3-month T-Bill auction (April 23, 2009) cut-off rate was 12.98% as compared to 11.74% in March 26, 2009 auction.</p> <p>Going forward, other developments are expected to reverse this rising trend in rates. Foremost among these, the Discount Rate was reduced to 14% from 15% on April 20, 2009. Other positive developments include (i) Year on Year (YoY) Wholesale Price Index (WPI) for March, 2009 was 11.1% as against 15% in February 2009 and YoY CPI (Consumer Price Index also called Headline Inflation number) was 19.1% in March, as against 21.1% a month ago. In brief, falling inflation means higher prices of financial assets including TFCs in your Fund (ii) Friends of Pakistan have pledged more than \$5 bln to Pakistan over next two years. This implies higher domestic liquidity in the banking system, which is likely to translate into higher prices of TFCs and increase in the return of your Fund (iii) Commitments from bilateral and multi-lateral agencies for development projects (iv) Continuing improvement in the current account deficit and fiscal deficit. In addition, any capital inflows in the form of Foreign Direct Investment in infrastructure and other sectors can provide further breathing space to improving macro-economic environment in Pakistan.</p> <p>The TFCs secondary market trading observed some volatility during the month mainly due to liquidity reasons discussed above. However, as liquidity is expected to ease out substantially over the next few months, resulting in a potential rise in the TFCs prices in NIF, the return on the Fund is expected to remain attractive in Calendar Year 2009.</p> |

Asset Allocation (on 30th April 2009)



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NAFA Islamic Income Fund (NIIF)

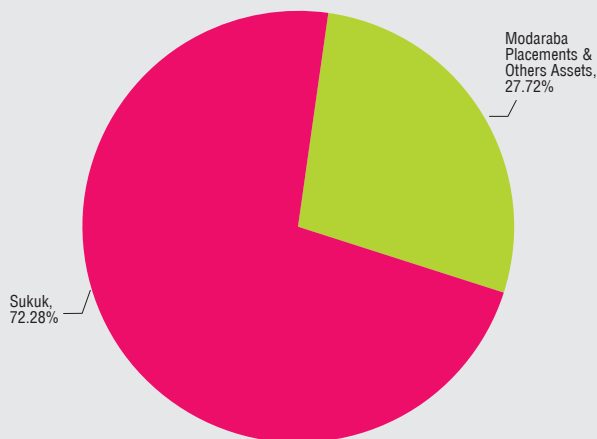
Unit Price (30/04/2009): Rs. 9.2634

April 2009

| Investment Objective | Performance | | | | | |
|---|---|-----------------|------------------|-----------------|---------------|-----------------------------------|
| | Performance (%) | Jan - Jun 2008* | Jul - Dec 2008** | Jan - Mar 2009* | Apr 2009* | Since Launch October 29, 2007* |
| To earn a competitive rate of return while preserving capital to the extent possible by investing in liquid assets. | NAFA Islamic Income Fund | 8.62% | (11.62)% | 24.98% | 10.37% | (0.42)% |
| | Benchmark | 5.31% | 2.90% | 7.75% | 7.27% | 5.98% |
| | * Represents Annualized Return ** Represents Cumulative Return (Returns are net of management fee & all other expenses) | | | | | |

| General Information | | Fund Manager's Commentary |
|----------------------|---|---|
| Launch Date: | October 29, 2007 | <p>NAFA Islamic Income Fund (NIIF) generated an annualized return of 10.37% during the month of April 2009. Average annualized return of the peer group for the month of April 2009 was calculated at 8.13%, thus NIIF outperformed the peer group by 2.24%. Annualized return of 10.37% offered by NIIF during the month of April 2009 is 3.10% better than average 1-month deposit rate offered by the Islamic banks.</p> <p>The attached chart shows the asset allocation of the Fund. As on April 30, 2009 sukuk portfolio comprised around 72.28% of the Fund size as against 74.3% during the previous month. Mudaraba placements & other assets accounted for around 27.72% of the Fund size as against 25.7% during the last month. The decrease in allocation in sukuk is due to increase in the Fund size.</p> <p>We have seen upward movement in KIBOR during the outgoing month due to tight money supply. On a month-on-month basis broad money supply (M-2) decreased by 0.58% in the month of March, 2009. State Bank of Pakistan (SBP) in its second quarterly monetary policy statement for the current fiscal year slashed discount rate by 100 basis points to 14% from 15%. SBP has also mentioned the projected average CPI inflation at 14% for period April-June 2009. Therefore, we are expecting significant reduction in the policy rate in July 2009.</p> <p>Going forward, we expect the return on our Fund to remain healthy due to: (i) improvement in the prices of sukuk portfolio; (ii) attractive coupon rates offered by the sukuks; and (iii) better profit rates on our mudaraba placements.</p> |
| Fund Size: | Rs. 624 million | |
| Type: | Open-end – Shariah Compliant Income Fund | |
| Dealing: | Daily - Monday to Friday | |
| 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 (on 30th April 2009)



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NAFA Islamic Multi Asset Fund (NIMF)

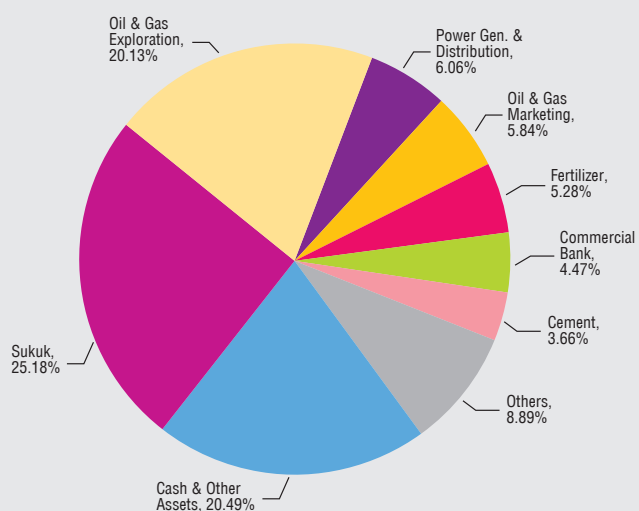
NAV Unit Price (30/04/2009): Rs. 8.4228

April 2009

| Investment Objective | Performance | | | | | |
|--|---|----------------|----------------|---------------------|----------|----------------------------------|
| | Performance (%)* | Nov - Dec 2007 | Jan - Dec 2008 | Jul - Mar 2008 - 09 | Apr 2009 | Since Launch October 29, 2007 |
| 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. | NAFA Islamic Multi Asset Fund | (2.42)% | (35.94)% | (12.43)% | 0.87% | (15.77)% |
| | Benchmark** | - | - | - | 3.58% | - |
| | * Returns are net of management fee & all other expenses ** KMI - 30 Index was launched on 1st Sep, 2008 | | | | | |

| General Information | | Fund Manager's Commentary |
|----------------------|---|--|
| Launch Date: | October 29, 2007 | During the month of April 2009, Net Asset Value (NAV) of NAFA Islamic Multi Asset Fund (NIMF) increased by 0.87%, whereas the benchmark increased by 3.58%, thus an under-performance of 2.71% was recorded. |
| Fund Size: | Rs. 527 million | |
| Type: | Shariah Compliant - Open-end Balanced Fund | |
| Dealing: | Daily - Monday to Friday | |
| Settlement: | 2-3 business days | |
| Load: | Front end - 3%, Back end - 0% | During the first half of the month, the stock market continued its earlier momentum. The second half of the month, however, witnessed a lot of volatility. KMI-30 index closed the previous month at a level of 9,572 points. After touching an intra-month high of 11,025 points on 21 April, it closed the month at a level of 10,167 points thus erasing most of the gains made earlier in the month. The Fund is holding good blue chip shares in the Fertilizer and Oil and Gas sectors. These shares did very well over the last couple of months. As a result, we were able to substantially outperform the benchmark in the last few months. However, in April, these shares did not rise inline with the market. We expect these shares to continue to perform well in the coming months. |
| Management Fee: | 3% per annum | |
| Listing: | Lahore Stock Exchange | |
| Custodian & Trustee: | Central Depository Company (CDC) | |
| Auditors: | A. F. Ferguson & Co. Chartered Accountants | |
| Benchmark: | 50% KMI - 30 Index & 50% average 1-month profit rate of Islamic banks | Positive macroeconomic developments took place during the month. SBP lowered its policy rate by 1% from 15% to 14%. Inflation for the month of March confirmed its declining trend. CPI inflation for March was 19.1% and Core inflation was 18.5%. The monetary policy statement issued by SBP mentioned that average CPI inflation was expected to be 14% over the last quarter of the current fiscal year (Apr to Jun 2009) and 8% over the next fiscal year i.e. FY 2009-10. This clearly indicates that the risks to inflation are decreasing and the focus of the central bank is shifting towards economic growth. There is a strong expectation in the market regarding a significant reduction in the policy rate by SBP in July 2009. |
| Fund Manager: | Sajjad Anwar, CFA | |
| Min. Subscription: | Growth Unit: Rs. 10,000/- Income Unit: Rs. 100,000/- | |

Asset Allocation (on 30th April 2009)



Despite these positive developments on the economic front, the investors showed a lot of nervousness during the last few trading days of the month. Deteriorating law and order situation and worsening political landscape in the north western parts of the country seems to have shaken the confidence of the investors.

We are around market weight in equities at the end of the month. However, we are watching the behavior of the market very closely and cautiously and our decision to underweight or overweight equities in the near future will depend on macroeconomic and political trends in the country.

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