

NAFA Funds

Monthly Report (Aug 2009)



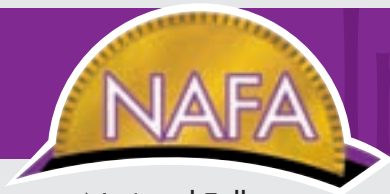
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Joint - Venture Partners



National Fullerton
Asset Management Limited

Dr. Amjad Waheed, CFA
Chief Executive Officer

Is Economic Revival Around the Corner?

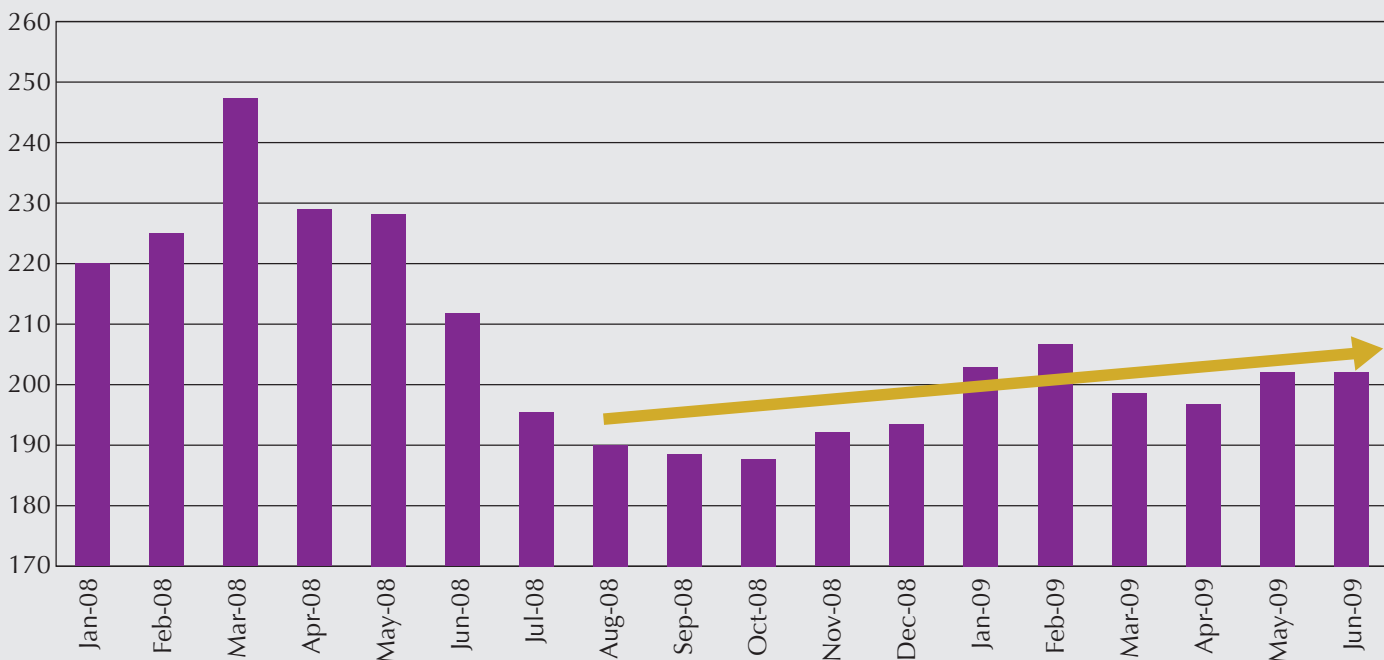
Large Scale Manufacturing (LSM) contracted by over 8% in FY09. Global recession as well as domestic factors such as power shortages, circular debt, law & order situation, lack of investor confidence stemming from a significant fall in foreign exchange reserves and downgrading of country's rating, played a role in this contraction. However, it seems that the economy has bottomed out, and there are signs of a recovery. The Index of Large Scale Manufacturing (LSM) bottomed out in October, 2008 at 187.8, and has since then gradually risen to 202.7 (see Chart below). Our investors in the textile, steel, auto and construction businesses have all been pointing to a recovery at the ground level. However, the recovery is expected to be slow and steady.

The key risks to this economic recovery are as follows: (i) high inflation, due to rise in global commodity prices, especially crude oil, as a result of global economic recovery; (ii) high current account deficit due to the huge oil import bill stemming from increased domestic power production; (iii) high interest rates due to excessive Government borrowing; and (iv) continued private sector's reluctance to invest. The most important step the Government can take to manage these risks is to keep its own spending and borrowing within manageable limits.

Liquidity is presently tight in the system, as is evident by the nearly 2% shrinkage in money supply (M2) during July-August 15, 2009. Despite this tight liquidity, the Stock Market has risen substantially during the month. This is driven by a record investment of US\$95 million by foreign investors during the month. Encouraged by attractive valuations and foreign support, local investors have also jumped in. However, the main beneficiaries of this rally are a few companies which have large enough free float and liquidity for foreign investors to enter. There are several smaller companies with very attractive valuations, which have underperformed despite strong fundamentals as foreign investors generally do not take positions in these companies due to their relatively lower liquidity.

The Pakistani Stock Market is now trading at a price-to-earnings ratio of around 8x on FY10 forecast earnings. Thus, the market seems fairly priced relative to historical averages and regional comparisons. Several blue chip companies are now trading close to their fair values, and the interest is expected to gradually shift to "value" rather than "size". In the long term, it will be the economic fundamentals, especially the direction of interest rates, inflation, budget and current account deficits that will determine the direction of the Stock Market rather than foreign buying.

Index of Large Scale Manufacturing (LSM)



Source: Federal Bureau of Statistics



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NAFA Government Securities Liquid Fund (NGSLF)

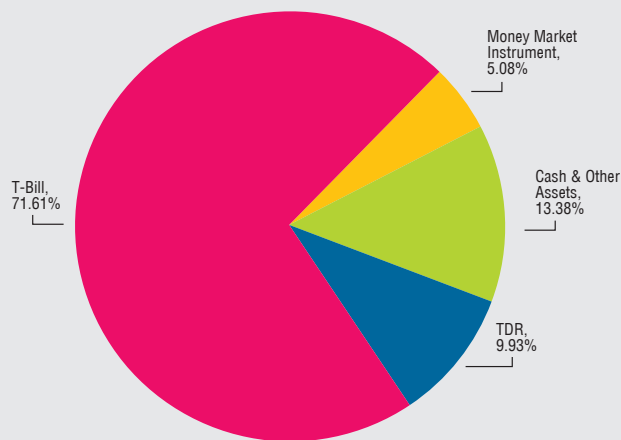
Unit Price (31/08/2009): Rs. 10.1674

August 2009

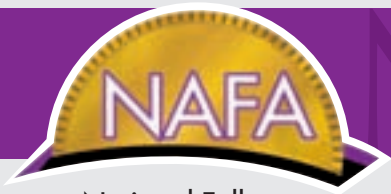
Investment Objective	Performance				
To generate optimal return with minimum risk, to provide easy liquidity and reasonable income to its unit holders by investing primarily in short-term Government Securities	Performance (%)*	Jun 2009	Jul 2009	Aug 2009	Since Launch May 16, 2009
	NAFA Government Securities Liquid Fund	11.51%	10.68%	9.53%	10.86%
	Benchmark	11.56%	11.09%	11.47%	11.83%
* Represents Annualized Return (Returns are net of management fee & all other expenses)					

General Information		Fund Manager's Commentary
Launch Date:	May 16, 2009	NAFA Government Securities Liquid Fund earned an annualized return of 9.53% during the month of August. The return earned during the month is lower in comparison to the previous month due to adjustment in the T-Bills prices as a result of rising interest rates.
Fund Size:	Rs. 2,317 million	
Type:	Open-end – Money Market Fund	<p>The Finance Ministry's meeting with IMF ended on a positive note and Government of Pakistan got an additional loan of \$3.2 billion from the Fund. With the approval of new loan, Pakistan's total borrowing will increase to \$11.2 billion from the Fund. Though the loan is positive in the short-term, it may have its repercussions on the economy in the long-term in the form of higher debt servicing. In order to pay back these loans in time from its own resources rather than fresh borrowing, Government of Pakistan needs to have in place the structural reforms (e.g increase in tax to GDP ratio, increase in tax net, etc). Though we have yet to see any major steps by the Government of Pakistan in this direction, the announcement of incentives by the Central Bank to double foreign remittances by next year is a step in the right direction.</p> <p>The Central Bank conducted two Treasury Bills auctions during August, 2009, the cut-offs in 3-Month, 6-Month, and 1-year increased by 96, 104 and 57 basis points, respectively. The reason for the increase in the demanded rate of return by the capital markets were: i) increase in the MoM inflation by 1.50%; ii) increasing burden of external debt servicing; iii) Government's heavy reliance on foreign and domestic loans to finance the twin deficits; iv) its inability to attract Foreign Direct Investment; v) Government huge budgetary borrowing target and Circular debt being funded through Commercial Banks.</p> <p>In a short span of four months since its inception, investors have invested Rs 2.317 billion in NGSLF due to the high quality of assets in the Fund and its attractive tax-exempt return of 10.86% p.a.</p>
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:	70% 3-Month T-Bills and 30% average 3-Month deposit rates (AA and above rated banks)	
Fund Manager:	Ahmad Nouman	
Min. Subscription:	Growth Unit: Rs. 10,000/- Income Unit: Rs. 100,000/-	

Asset Allocation (as on 31st August 2009)



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NAFA Cash Fund (NCF)

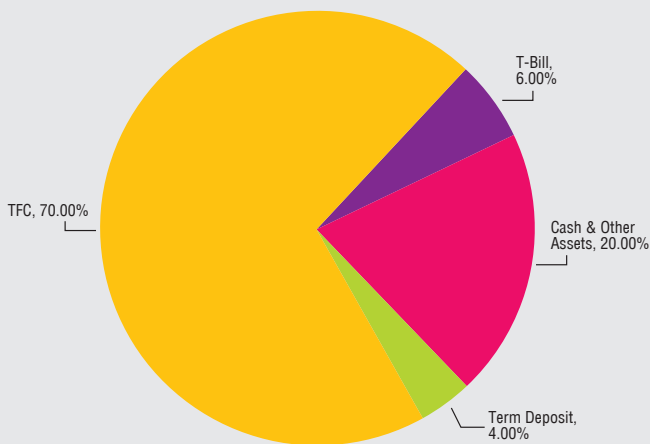
Unit Price (31/08/2009): Rs. 10.0539

August 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 (%)*	Apr - Dec 2006	Jan - Dec 2007	Jan - Dec 2008	Jan - Aug 2009	Aug 2009	Since Launch April 22, 2006
	NAFA Cash Fund	10.65%	10.28%	2.92%	14.03%	6.08%	8.83%
	Benchmark	9.87%	10.07%	12.95%	13.69%	13.31%	11.59%
* Represents Annualized Return (Returns are net of management fee & all other expenses)							

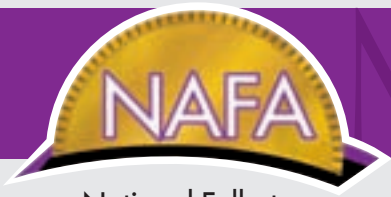
General Information		Fund Manager's Commentary
Launch Date:	April 22, 2006	<p>NAFA Cash Fund earned an annualized return of 6.08% during August, 2009. The return earned during the month is lower than July, 2009. This is because TFCs/ Sukuks traded at slightly lower prices during the month on back of tighter market liquidity. Although the return during the month has been lower than July, the investors have earned an annualized return of 14.03% for the period of January to August, 2009.</p> <p>Rates in the money market remained high during the month due to following reasons; i) low liquidity in the money market; ii) announcement of reverse repo (lending facility) for the Scheduled Banks and Primary Dealers; iii) increase in the MoM inflation by 1.54%; iv) increased burden of external debt servicing; v) no progress on the structural reforms (e.g agriculture tax, increase in tax to GDP ratio, etc); vi) the Government's heavy reliance on foreign loans to finance the twin deficits; vii) Government's inability to attract Foreign Direct Investment; viii) Government's huge budgetary borrowing target and Circular Debt being funded through Commercial Banks.</p> <p>Three month T-Bills were trading at 12.28% at the end of August as against 11.80% a month earlier. Similarly, 6-Months KIBOR closed the month of August at 12.56% as against July closing of 11.99%. This depicts tighter money market liquidity situation. This resulted in slightly lower TFCs/ Sukuks prices in your Fund, during the month.</p> <p>We can witness capital gains on the Term Finance Certificate in the coming months due to improved confidence of the foreign investors in Pakistan as witnessed by increasing trend in Foreign portfolio investment and remittances. We do not expect money market rates to move upwards significantly from here on as foreign inflows are also expected to improve the liquidity in the system. Most of the TFCs/sukuks in the Fund are still trading at substantial discount to their par value. Hence, we expect better return on the Fund in the coming months.</p>
Fund Size:	Rs. 7,646 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:	Rukhsana Narejo, CFA	
Minimum Subscription:	Growth Unit: Rs. 10,000/- Income Unit: Rs. 100,000/-	

Asset Allocation (as on 31st August 2009)



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NAFA Income Fund (NIF)

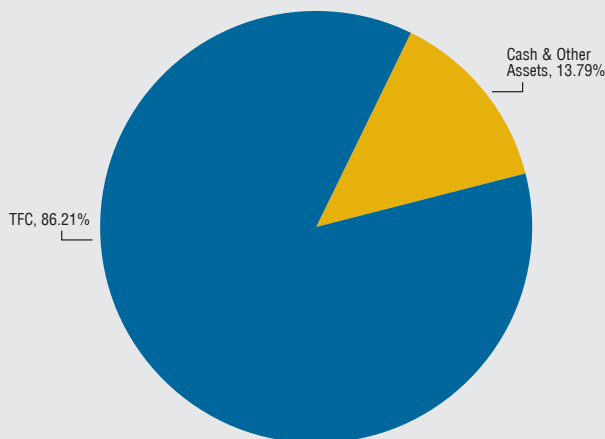
Unit Price (31/08/2009): Rs. 10.1490

August 2009

Investment Objective	Performance				
To earn a competitive rate of return while preserving capital to the extent possible by investing in liquid assets.	Performance (%)	Mar - Dec 2008*	Jan - Aug 2009*	Aug 2009*	Since Launch March 29, 2008**
	NAFA Income Fund	(2.04)%	15.22%	5.56%	8.18%
	Benchmark	12.53%	13.23%	12.83%	18.85%
* 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. 805 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	<p>During the month of August, NIF earned an annualized rate of return of 5.56%. This is because TFCs/ Sukuks traded at lower prices during the month on the back of tighter market liquidity. However, if we analyze the return of your Fund in the first eight months of the calendar year so far i.e. from Jan 2009 to Aug, 2009, your Fund has earned an annualized return of 15.22%. This is better than the benchmark return by 199 basis points.</p> <p>Three month T-Bills were trading at 12.28% at the end of August, as against 11.80% a month earlier. Similarly, 6-Months KIBOR closed the month of August at 12.56%, as against July closing of 11.99%. This depicts tighter money market liquidity situation. This resulted in slightly lower TFCs/ Sukuks prices in your Fund, during the month. However, we do not expect money market rates to move upwards significantly from here on. Hence, we expect better return on the Fund in the coming months.</p>
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/-	

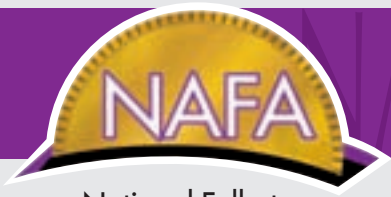
Asset Allocation (as on 31st August 2009)



Realization of promised foreign inflows during the next few months remains one of the key deciding factors for money markets liquidity. Government's prudence and discipline in financial and monetary management is also very important. During August, State Bank of Pakistan cut down the Policy rate by 1% to 13% p.a. In the last T-Bill auction conducted on August 26, 2009, the cut-off rate for 3-month T-bill, which is also the benchmark of your Fund, was 12.38% p.a. Inflation numbers of July came in line with the previous falling trend. YoY CPI (Consumer Price Index) number came at 11.2% in July, as against 13.1% in June. Similarly, YoY SPI (Sensitive Price Indicator) inflation in July was 9.4% as against 10.8% in previous months and YoY WPI (Wholesale Price Index) inflation was 0.5% in July as against 4.1% in June.

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NAFA Islamic Income Fund (NIIF)

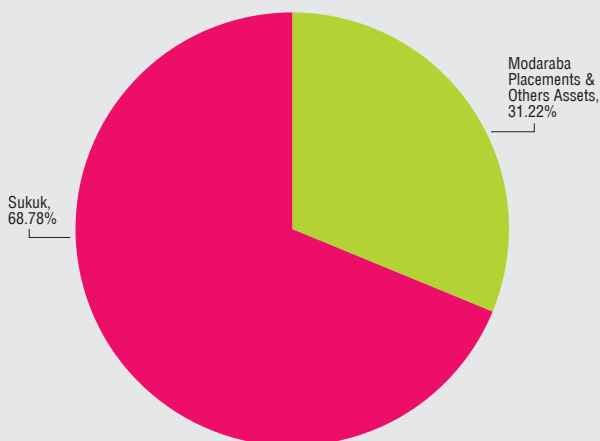
Unit Price (31/08/2009): Rs. 9.4829

August 2009

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.	Performance (%)*	Oct - Dec 2007	Jan - Dec 2008	Jan - Aug 2009	Aug 2009	Since Launch October 29, 2007
	NAFA Islamic Income Fund	7.67%	(7.88)%	13.87%	5.77%	0.93%
	Benchmark	5.31%	5.57%	7.42%	7.18%	6.21%
* Represents Annualized Return (Returns are net of management fee & all other expenses)						

General Information		Fund Manager's Commentary
Launch Date:	October 29, 2007	During the month of August, 2009, NAFA Islamic Income Fund (NIIF) earned an annualized return of 5.77%. This is mainly due to the trading of Sukuks at lower prices on back of tight liquidity conditions in the market. However, the return of your Fund during the first eight months of the calendar year i.e. Jan, 2009 to Aug, 2009 has been a healthy 13.87%, around 6.45% better than the benchmark return.
Fund Size:	Rs. 442 million	
Type:	Open-end – Shariah Compliant Income Fund	
Dealing:	Daily - Monday to Friday	
Settlement:	2-3 business days	
Load:	Front end: 1.0%	State Bank of Pakistan cut the Policy/ Discount Rate by 1% to 13% p.a. on 15th of August. Market consensus initially was for a cut of 150 basis points. During the entire month of August, we witnessed gradual inching up of short-term rates. The 6-Month KIBOR closed the month at 12.56% p.a., 57 basis points higher than July closing. Next Monetary Policy Statement is due at the end of September, and will be announced every two months from now onwards. A further cut in the Policy Rate is expected in the range of around 50 basis points.
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 so far successful military operation in the Northern Areas and associated better law and order situation bode well for foreign investment coming into Pakistan in the long-run. Some positive signs have already started to emerge as evident in improving Foreign Equity Portfolio Investment. Further, Government's fiscal discipline under the IMF program is also a plus from sustainable economic recovery view point. These factors combined with realization of expected foreign financial inflows can improve the domestic capital markets and liquidity. This can likely translate into improved prices of Sukuks in your Fund.
Fund Manager:	Rukhsana Narejo, CFA	
Min. Subscription:	Growth Unit: Rs. 10,000/- Income Unit: Rs. 100,000/-	

Asset Allocation (as on 31st August 2009)

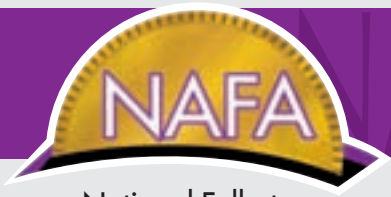


The so far successful military operation in the Northern Areas and associated better law and order situation bode well for foreign investment coming into Pakistan in the long-run. Some positive signs have already started to emerge as evident in improving Foreign Equity Portfolio Investment. Further, Government's fiscal discipline under the IMF program is also a plus from sustainable economic recovery view point. These factors combined with realization of expected foreign financial inflows can improve the domestic capital markets and liquidity. This can likely translate into improved prices of Sukuks in your Fund.

Declining inflation enhance the attractiveness of debt instruments such as Sukuks. The headline inflation number i.e. Year on Year (YoY) CPI came down to 11.2% in July as compared to 13.1% in the month of June. Importantly, YoY Core Inflation (trimmed) has also declined to 13.9% in July as compared to 15.5% in June 2009.

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NAFA Multi Asset Fund (NMF)

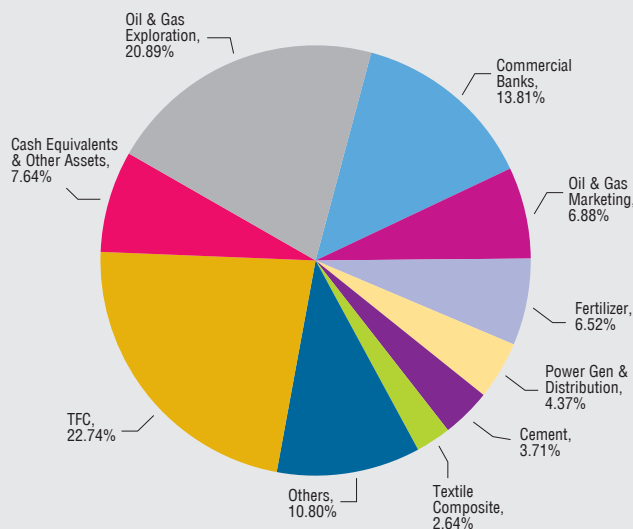
Unit Price (31/08/2009): Rs. 9.3724

August 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 - Jul 2008 - 09	Aug 2009	Since Launch January 22, 2007
	NAFA Multi Asset Fund	44.06%	(39.82)%	(18.16)%	3.10%	14.38%
	Benchmark (50% KSE-30 Index & 50% 1-month KIBOR)	17.50%	(38.22)%	(17.15)%	7.26%	(0.16)%
*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. 1,938 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 3.10% while the benchmark (50% KSE-30 index & 50% 1-month KIBOR) increased by 7.26%. Thus, your Fund under-performed the benchmark by 4.16% during the month. Since inception on January 22, 2007, your Fund has increased by 14.38%, while the benchmark has declined by 0.16%. Thus, to date the out-performance of your Fund stands at 14.54%.</p>
<p>Listing: Lahore Stock Exchange</p> <p>Trustee: Central Depository Company (CDC)</p> <p>Auditors: A. F. Ferguson & Co. Chartered Accountants</p> <p>Benchmark: 50% KSE-30 Index & 50% 1-month KIBOR</p> <p>Fund Manager: Sajjad Anwar, CFA</p> <p>Minimum Subscription: Growth Unit: Rs. 10,000/- Income Unit: Rs. 100,000/-</p>	

Asset Allocation (as on 31st August 2009)



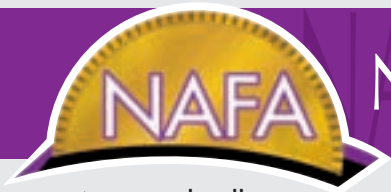
During the month, we remained over weight in equities and under weight in fixed income. The market witnessed a sharp rising trend during the month as a result of net foreign buying due to upgradation of ratings by Moody's and S&P, and fall in Pakistan credit-default swap, IMF's additional loan, improved security situation and lower YoY inflation (CPI).

Interest rates showed a rising trend during the month. 6-month KIBOR increased by 56 basis points to close the month at 12.56% from 12% at the start of the month. Due to tight liquidity situation and heavy Government borrowing, T-bills yield also showed upward trend during the outgoing month.

Going forward, we are expecting the Fund to perform well as we are holding undervalued stocks that are expected to perform better than the Market.

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NAFA Islamic Multi Asset Fund (NIMF)

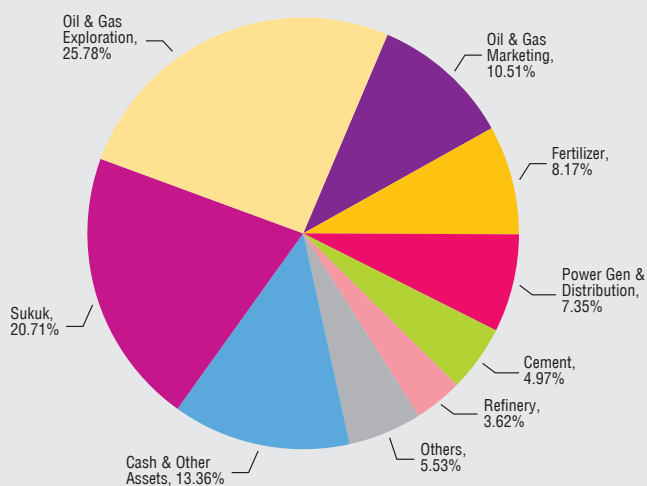
Unit Price (31/08/2009): Rs. 9.9153

August 2009

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.	Performance (%)*	Nov - Dec 2007	Jan - Dec 2008	Jul - Jul 2008 - 09	Aug 2009	Since Launch October 29, 2007
	NAFA Islamic Multi Asset Fund	(2.42)%	(35.94)%	(1.91)%	6.01%	(0.85)%
	Benchmark**	-	-	-	5.62%	-
* Returns are net of management fee & all other expenses ** KMI - 30 Index was launched on 1st Sep, 2008						

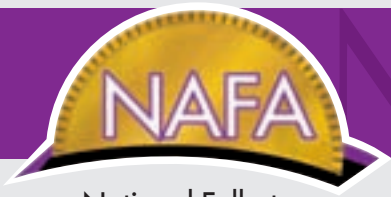
General Information	Fund Manager's Commentary
Launch Date: October 29, 2007 Fund Size: Rs. 673 million Type: Shariah Compliant - Open-end Balanced Fund Dealing: Daily - Monday to Friday Settlement: 2-3 business days Load: Front end - 3%, Back end - 0% Management Fee: 3% per annum	During the month of August 2009, Net Asset Value (NAV) of NAFA Islamic Multi Asset Fund (NIMF) increased by 6.01%, whereas the benchmark increased by 5.62%, thus an out-performance of 0.39% was recorded.
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 Fund Manager: Sajjad Anwar, CFA Min. Subscription: Growth Unit: Rs. 10,000/- Income Unit: Rs. 100,000/-	During the month, some of the stocks in auto, refinery and cement sectors did not perform in line with our expectations. In our view, these shares are fundamentally grossly undervalued. We expect mispricing of these stocks to correct in due course of time.
	Anticipating upside in the Stock Market, we remained overweight in equities and underweight in fixed income during the month. NIMF is a balanced fund and market weight implies 50% weight in equities and 50% in fixed income. The Market witnessed a sharp rising trend during the month. During the month, KMI-30 Index gained around 11%. Key factors responsible for this performance are: (i) net foreign inflows due to up gradation of ratings by Moody's and S&P and decline in Pakistan credit-default swap. (ii) IMF's additional loan. (iii) improved security situation. (iv) lower YoY inflation (CPI). (v) better than expected result season. (vi) improved balance of payment situation. Trading activity also remained very healthy with daily average traded value around PKR 8 billion.
	We witnessed a rising trend in interest rates during the month. As a result, 6-month KIBOR increased by 56 basis points to close the month at 12.56% from 12% at the start of the month. T-bills yield also showed upward trend during the outgoing month, mainly due to the tight liquidity situation and heavy Government borrowing.
	Going forward, we are expecting the performance of our Fund to improve further as we are holding undervalued stocks that are expected to perform better than the Market.

Asset Allocation (as on 31st August 2009)



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National Fullerton
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NAFA Stock Fund (NSF)

Unit Price (31/08/2009): Rs. 6.8349

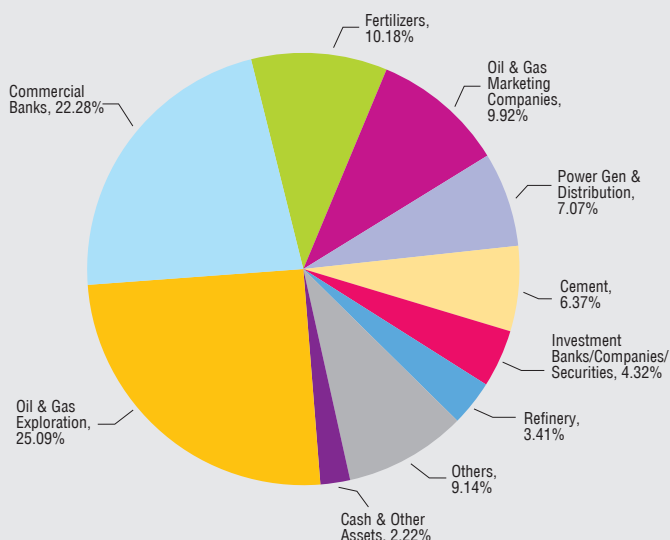
August 2009

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 - Jul 2008 - 09	Aug 2009	Since Launch January 22, 2007
	NAFA Stock Fund	61.59%	(60.21)%	(41.33)%	4.37%	(14.94)%
	Benchmark	24.82%	(67.19)%	(42.79)%	13.73%	(30.40)%
* 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. 1,409 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 13.73%, whereas NAFA Stock Fund's (NSF) Net Asset Value (NAV) increased by 4.37%, thus an under-performance of 9.36% was recorded. Since inception on January 22, 2007 the NAV of NSF has declined by 14.94% and the benchmark has declined by 30.40%, thus to date, out-performance is 15.46%.</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: Sajjad Anwar, CFA</p> <p>Min. Subscription: Growth Unit: Rs. 10,000/- Income Unit: Rs. 100,000/-</p>	

During the month, the Fund underperformed the benchmark. This resulted because some of our holdings in the cement, refineries and automobiles sectors lagged behind the Market. We believe that the Market has overreacted to developments related to these sectors and the stocks are trading substantially below their fundamental fair values. In addition to these, going forward, we feel that the fuel & energy (including power, oil & gas exploration, oil marketing) and fertilizer sectors have favorable prospects as well in view of strong sector fundamentals and stable dividend streams. Selectively, banks are also attractive where asset quality is superior. The energy sector and some banks have seen the most of foreign portfolio inflows.

Asset Allocation (as on 31st August 2009)



August was a buoyant month for equities with the benchmark index posting 13.73% increase to close at eight month high of 9321 points. The rally was primarily driven by another 100bps cut in the discount rate by the SBP to 13%, good corporate results season and huge foreign portfolio investment flows. Net foreign inflows during August stood at USD 95m as against USD 12m during July. These inflows were driven by the country's improved security situation and Pakistan's ratings upgrade by international rating agencies. Trading activity further picked up during August with Average Daily Value Traded standing at PKR 9 bn compared to PKR 8 bn in July.

The KSE-100 index is within striking distance of the 9000 point level. Prospects of foreign assistance to Pakistan by friendly countries can maintain positive sentiments. Moreover, possibilities of launch of margin financing or similar leverage product could enrich valuations. Going forward, we are expecting the Fund to perform well as we are holding undervalued stocks that are expected to perform better than the Market.

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



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