

# NAFA Funds

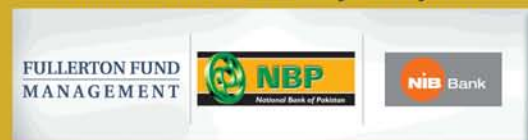
Monthly Report (Dec 2009)



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# Investment Outlook 2010

Dr. Amjad Waheed, CFA  
Chief Executive Officer

The New Year is expected to be another difficult one for Pakistan. The economic, security and political challenges that the country faced in 2009 will take time to improve. There are structural problems that Pakistan is facing such as the lack of adequate spending on basic education, health care and infrastructure. Lack of sufficient education spending on the poor over the years created the gap, which has been filled by the 40,000 or so madrassahs. Successive governments have paid no attention to development of energy, especially alternate sources of energy such as coal, hydel, wind, nuclear, etc.. This has resulted in not only a severe shortfall of energy, but also production of very expensive energy versus our neighbors such as China and India, where more than 50% of the electricity is generated by indigenous use of coal. These problems have been building up for decades and it will take years to resolve them, even if we start now.

In the short term, the key steps that the government needs to take to improve the economic situation is to control its expenses, especially non-productive spending. The policy of just borrowing internally and externally and spending at this high rate will increase our debt and debt servicing to unsustainable levels in the next few years. We will continue to fall deep in the debt trap. Excessive government borrowing also results in interest rates remaining high, and crowds out the private sector. The government has already set up a Committee to be chaired by the Finance Minister to suggest austerity measures. Let's hope that the recommendations of the Committee are implemented at the earliest. The Government also needs to bring those sectors under the tax net which are presently not paying their due share of taxes including agriculture and services sectors, and those investors earning capital gains on sale of their assets such as real estate, stocks, etc.

The year-to-year inflation (CPI) is down to 10.51%. However, if we examine the monthly inflation average over the last two months (October – November), the annualized inflation for this period is 14.06%, which is a cause of concern. We do not expect that the State Bank of Pakistan will be able to make any significant reduction in the discount rate considering the monthly inflation rate, and the fact that this rate is expected to remain high in the coming months due to the recent rise in utility prices. KIBOR is also expected to decline only marginally and gradually considering the high inflation rate, excessive government borrowing, circular debt issues and tight liquidity situation in the market.

The economic growth rate is expected at around 3% per annum in 2010 due to the global economic slowdown, internal security situation, high interest rates, and a significant drop in foreign direct investment. The current account deficit has improved significantly over the last year. It averaged US\$ 721 million per month in 2008 and around US\$ 256 million per month in 2009. High foreign remittances and a drastic reduction in imports have primarily contributed to improvement in the current account deficit and this trend is expected to continue in 2010. This means that there will not be excessive pressure on the rupee versus other currencies, although a normal devaluation of rupee of 5%-6% against key currencies during the year is possible.

A significant improvement in the economic and liquidity situation can be seen if the promises of foreign assistance made by the US and other Western countries, and donor agencies materialize in 2010. This will help the government clear the circular debt and reduce domestic borrowing, which may help bring down interest rates.

The Pakistani stock market is presently trading at around 8 times forward earnings versus regional markets that are trading at around 14 times forward earnings. Thus, the market is trading at a 45% discount to regional markets, which we believe is justifiable based on the high political, security, and economic risks of Pakistan versus regional countries. The corporate earnings of listed companies in Pakistan are expected to rise by 18% in 2010. We expect the Pakistani stock market to rise in line with the trend in corporate earnings in 2010. The trigger points will be improving liquidity on receipt of foreign inflows, implementation of margin financing / leverage products, and expected improvement in the law and order situation. We expect Oil & Gas, Fertilizer, and power sectors to perform well.

The Fixed Income (TFC / Sukuk) market is also expected to perform well in 2010. In Q4, 2008, TFC prices declined sharply by around 15% as a result of severe economic and liquidity crises. In 2009, TFC prices have



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# Investment Outlook 2010

in general risen by around 9%. However, most TFCs are still trading at around 5%-10% below their par values. We expect TFC prices to rise further in 2010, resulting in narrowing of discounts relative to par values. One reason for this is that the period to maturity of TFCs will reduce further. Another reason is that the TFCs are offering a very attractive return of 18% per annum at present. Also, some TFCs that had defaulted over the last couple of years are now being restructured. Income / balanced funds in general have substantially provided for these TFCs, and will be in a position to gradually reverse back these provisions, thus providing attractive returns to their investors in the process.

Money Markets – primarily Government Treasury Bills - rates are expected to remain on the higher end in 2010, due to expected continued excessive reliance of Government on T-bills to meet its budget deficit. Thus, the return on Government Securities / money market mutual funds is expected to remain attractive for investors in 2010 in the range of 10% - 11% per annum.

Considering the security and economic risks in the country, investors' risk aversion is expected to continue to be on the higher side as was the case in 2009. This is evident from the fact that the fastest growing mutual fund category in 2009 was the money market / government securities funds. NAFA Government Securities Liquid Fund, rated AA+ by PACRA, was launched in mid-May 2009, and is among the fastest growing funds in the market. The Fund has provided an annualized return of 10.81% since inception, and the unit price has not declined on any day since its launch. Below is the list of key Fixed Income / Money Market funds in the market, along with their ratings. The highest rated funds are also the fastest growing funds. We expect that this trend of investors preferring the safe money market funds will continue in 2010 as well.

## Key Fixed Income / Money Market Funds

S. No.	Fund Name	Stability Rating
1	NAFA Government Securities Liquid Fund	AA+(f)
2	UBL Liquidity Plus Fund	AA+(f)
3	JS Income Fund	AA-(f)
4	NAFA Cash Fund	A+(f)
5	Meezan Islamic Income Fund	A+(f)
6	ABL Income Fund	A+(f) *
7	United Growth & Income Fund	A(f)
8	Faysal Savings Growth Fund	A(f)
9	Askari Income Fund	- **
10	MCB Dynamic Cash Fund	- **

\* As of December 31, 2009

\*\*Rating (Recent) Not Available

- These are all funds in the market with fund size of over Rs. 3 billion as of November 30, 2009
- Stability Rating is compulsory under SECP rules
- Ratings are awarded by PACRA & JCR and are as of November 2009



# NAFA Government Securities Liquid Fund (NGSLF)

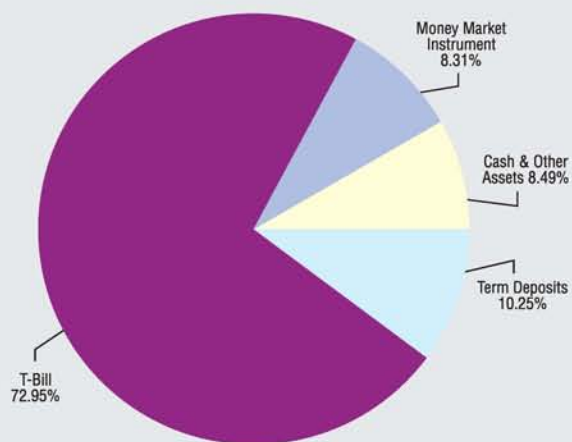
Unit Price (31/12/2009): Rs. 10.2663

December 2009

Investment Objective	Performance					Since Launch May 16, 2009
	Performance (%)*	May - Jun 2009	Jul - Sep 2009	Oct - Dec 2009	December 2009	
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	<b>NAFA Government Securities Liquid Fund</b>	<b>11.88%</b>	<b>10.25%</b>	<b>10.85%</b>	<b>10.76%</b>	<b>10.81%</b>
	<b>Benchmark</b>	12.58%	11.41%	11.34%	11.23%	11.62%
	* Represents Annualized Return (Returns are net of management fee & all other expenses)					

General Information		Fund Manager's Commentary
Launch Date:	May 16, 2009	The Fund earned an annualized return of 10.76% during the month. The annualized return earned during the previous month was 11.08%. The unit price of NGSLF has not declined on any day since the launch of Fund in May, 2009. This is an indicator of the stability and safety of your Fund based on its investment policy of investing only in short-term Govt. T-Bills and AA and above rated banks.
Fund Size:	Rs. 3,413 million	
Type:	Open-end – Money Market Fund	
Dealing:	Daily – Monday to Friday	
Settlement:	2-3 business days	
Load:	No entry or exit load	The macro-economic indicators have been improving in the current FY 2010, importantly current account deficit. During November, Year on Year (YoY) Core Inflation numbers have continued the downward trend observed throughout CY 2009 and were around 10.5%. However, month-on-month CPI number of November at 1.4% is worrisome. As subsidies continue to be removed gradually, this impact will further raise the cost of production and inflation.
Management Fee:	1.5% per annum	
Stability Rating:	"AA+(f)" - PACRA	
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	
Minimum Subscription:	Growth Unit: Rs. 10,000/- Income Unit: Rs. 100,000/-	

Asset Allocation (as on 31st December 2009)



Rating	% Allocation (December)	% Allocation (November)
AAA	73.0%	72.2%
AA+	6.3%	5.2%
AA	19.5%	22.3%
Accruals, deferred costs & unrealized sales	1.2%	0.3%

In the last T-Bill auction held on December 31, 2009, the cut-off rates for 3-Months and 6-Months were 12.06% and 12.10%, respectively. 3-Month and 6-Month cut-off rate declined by 31 bps and 22 bps, respectively, as compared to the last auction of November held on November 19, 2009. The Government borrowing through T-Bills from scheduled banks has been increasing over the last few months. Outstanding stock of all T-Bills is now over Rs 1.1 trillion, more than double than at the end of 2008.

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# NAFA Savings Plus Fund (NSPF)

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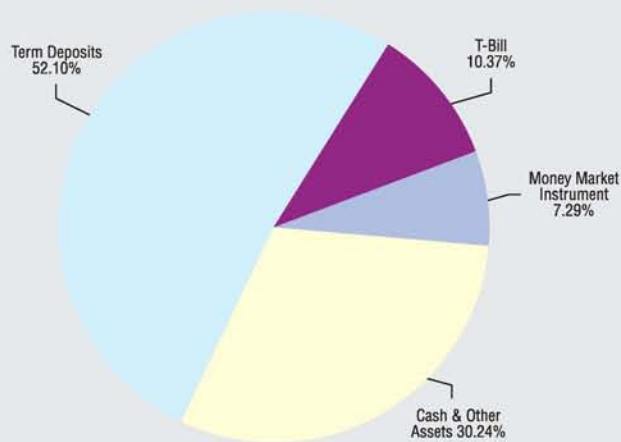
Unit Price (31/12/2009): Rs. 10.1179

December 2009

Investment Objective	Performance			
To minimize risk, preserve capital and generate a reasonable return along with a high degree of liquidity from a portfolio of primarily constituted of bank deposits and money market instruments.	<b>Performance (%)*</b>	<b>November 2009</b>	<b>December 2009</b>	<b>Since Launch</b> November 21, 2009
	<b>NAFA Savings Plus Fund</b>	<b>15.60%</b>	<b>10.07%</b>	<b>11.29%</b>
	<b>Benchmark</b>	12.31%	7.91%	8.88%
* Represents Annualized Return (Returns are net of management fee & all other expenses)				

General Information	Fund Manager's Commentary														
<p>Launch Date: Nov 21, 2009 Fund Size: Rs. 480 million Type: Open-end – Income Fund Dealing: Daily – Monday to Saturday Settlement: 2-3 business days Load: No entry or exit load Management Fee: 2.0% per annum Stability Rating: "AA-(f)" - PACRA</p>	<p>The Fund earned an annualized return of 10.07% during the month. This is better than the benchmark return by 216 basis points.</p> <p>Current distribution of assets on the basis of credit quality is as given below:</p> <table border="1"> <thead> <tr> <th>Rating</th> <th>Percentage Allocation</th> </tr> </thead> <tbody> <tr> <td>AAA</td> <td>10.9%</td> </tr> <tr> <td>AA+</td> <td>7.6%</td> </tr> <tr> <td>AA</td> <td>57.2%</td> </tr> <tr> <td>AA-</td> <td>11.8%</td> </tr> <tr> <td>A</td> <td>10.4%</td> </tr> <tr> <td>Accruals, deferred costs &amp; unrealized sales</td> <td>2.1%</td> </tr> </tbody> </table>	Rating	Percentage Allocation	AAA	10.9%	AA+	7.6%	AA	57.2%	AA-	11.8%	A	10.4%	Accruals, deferred costs & unrealized sales	2.1%
Rating		Percentage Allocation													
AAA		10.9%													
AA+	7.6%														
AA	57.2%														
AA-	11.8%														
A	10.4%														
Accruals, deferred costs & unrealized sales	2.1%														
<p>Listing: Lahore Stock Exchange Custodian &amp; Trustee: Central Depository Company (CDC) Auditors: A. F. Ferguson &amp; Co. Chartered Accountants Benchmark: Average 6-Month deposit rates (A and above rated banks)</p>															
<p>Fund Manager: Irfan Malik, CFA Minimum Subscription: Growth Unit: Rs. 10,000/- Income Unit: Rs. 100,000/-</p>															

Asset Allocation (as on 31st December 2009)



Your Fund intends to remain invested in T-bills (AAA rated), Bank deposits (A rated and above banks) and money market instruments (AA rated and above).

There has been a notable improvement in 1H-FY10 macro economic indicators, importantly current account deficit. During November, Year on Year (YoY) Core Inflation numbers have continued the downward trend observed throughout CY 2009 and were around 10.5%. With Discount Rate at 12.5%, this allows some room for SBP to further ease the monetary policy. However, month-on-month CPI number of November at 1.4% is worrisome, as subsidies continue to be removed gradually and this impact will further raise the cost of production and as well as cost of living. This, however, is a positive for fiscal deficit.

Timing and magnitude of inflows (non-IMF) should lead SBP monetary policy decision in the next Monetary Policy Statement due end-January, 2010.

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# NAFA Cash Fund (NCF)

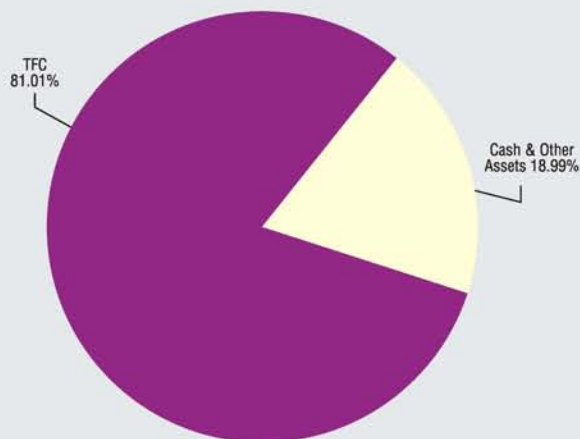
Unit Price (31/12/2009): Rs. 10.1668

December 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 - Dec 2009	December 2009	Since Launch April 22, 2006
	<b>NAFA Cash Fund</b>	<b>10.65%</b>	<b>10.28%</b>	<b>2.92%</b>	<b>12.54%</b>	<b>4.84%</b>	<b>8.90%</b>
	<b>Benchmark</b>	9.87%	10.07%	12.95%	13.63%	13.25%	11.77%
* Represents Annualized Return (Returns are net of management fee & all other expenses)							

General Information	Fund Manager's Commentary
<p>Launch Date: April 22, 2006            Fund Size: Rs. 4,825 million            Type: Open-end – Income Fund            Dealing: Daily - Monday to Friday            Settlement: 2-3 business days            Load: No entry or exit load            Management Fee: 1.5% per annum</p>	<p>The Fund earned an annualized return of 4.84% during the month. The return is low due to relatively constrained liquidity in December, which is also the last accounting month for banks for the year. Traditionally also, December has been a month of tight liquidity in domestic money market. 6-Months KIBOR has remained within a band of 12.39% to 12.47% during the month and closed the month at 12.43%. Due to tight liquidity, some TFCs traded in the market at lower levels, which affected the return on the Fund. We expect that in the coming months liquidity situation will improve, and TFCs will trade at higher levels, benefitting our investors.</p>
<p>Listing: Lahore Stock Exchange            Custodian &amp; Trustee: Central Depository Company (CDC)            Auditors: A. F. Ferguson &amp; Co. Chartered Accountants            Benchmark: 1-Month KIBOR            Fund Manager: Irfan Malik, CFA            Minimum Subscription: Growth Unit: Rs. 10,000/-              Income Unit: Rs. 100,000/-</p>	

Asset Allocation (as on 31st December 2009)



There has been a notable improvement in 1H-FY2010 macro-economic indicators of Pakistan, importantly current account deficit. Year on Year (YoY) Core Inflation numbers have continued the downward trend observed throughout CY 2009, with Trimmed and Non Food Non Energy (NFNE) YoY core inflation November numbers settling at 10.5% and 10.6% respectively. However, month-on-month CPI number was worrisome at 1.4%. One breather has been the recent release of IMF funds of USD 1.2 bln and the expected USD 1 bln from Japan under Friends of Pakistan pledges and USD 1.5 bln from USA. Pressure on fiscal deficit is likely to ease going forward as subsidies are eliminated gradually. Fiscal austerity and law and order situation will continue to set the pace of improvement in the general economic health.

The weighted average yield to maturity on the TFCs held in NAFA Cash Fund (NCF) is around 15.42% p.a. In the coming months, with expected improvement in liquidity based on expected non-IMF inflows, we expect upside potential in TFCs prices. The AA rating category make up more than 57% of the NCF TFCs portfolio, while A rating category constitutes 30%. This signifies the sound credit quality of your Fund's TFC portfolio. The dismal performance of cement sector is, however, a concern, but such effected Sukuks are in the process of restructuring and are expected to complete soon.

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# NAFA Income Fund (NIF)

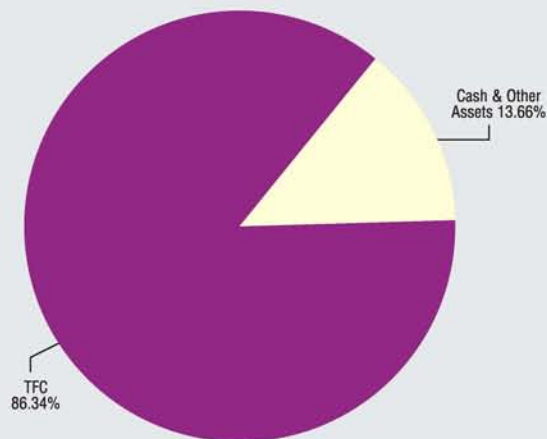
Unit Price (31/12/2009): Rs. 10.4828

December 2009

Investment Objective	Performance				
	Performance (%)	Mar - Dec 2008*	Jan - Dec 2009*	December 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.	<b>NAFA Income Fund</b>	<b>(2.04)%</b>	<b>13.50%</b>	<b>16.24%</b>	<b>11.74%</b>
	<b>Benchmark</b>	12.53%	13.18%	12.90%	23.83%
	* 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. 665 million Type: Open-end – Income Fund Dealing: Daily – Monday to Friday Settlement: 2-3 business days Load: Front end: 1.0% Management Fee: 1.5% per annum	<p>The Fund earned an annualized return of 16.24% during the month as against 10.31% earned in November. During December, the money market remained tight, as traditionally. 6-Months KIBOR has remained within a band of 12.39% to 12.47% during the month and closed the month at 12.43%.</p> <p>There has been a notable improvement in 1H-FY2010 macro-economic indicators of Pakistan, importantly current account deficit. Year on Year (YoY) Core Inflation numbers have continued the downward trend observed throughout CY 2009, with Trimmed and Non Food Non Energy (NFNE) YoY core inflation November numbers settling at 10.5% and 10.6% respectively. However, month-on-month CPI number was worrisome at 1.4%. One breather has been the recent release of IMF funds of USD 1.2 bln and the expected USD 1 bln from Japan under Friends of Pakistan pledges and USD 1.5 bln from USA. Pressure on fiscal deficit is likely to ease going forward as subsidies are eliminated gradually. Fiscal austerity and law and order situation will continue to set the pace of improvement in the general economic health.</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 December 2009)



The weighted average yield to maturity on the TFCs held in NAFA Income Fund (NIF) is around 15.5% p.a. In the coming months, with expected improvement in liquidity based on expected non-IMF inflows, we expect upside potential in TFCs prices. The AA rating category make up more than 58% of the NIF TFCs portfolio, while A rating category constitutes 20%. This signifies the sound credit quality of your Fund's TFC portfolio.

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# NAFA Islamic Income Fund (NIIF)

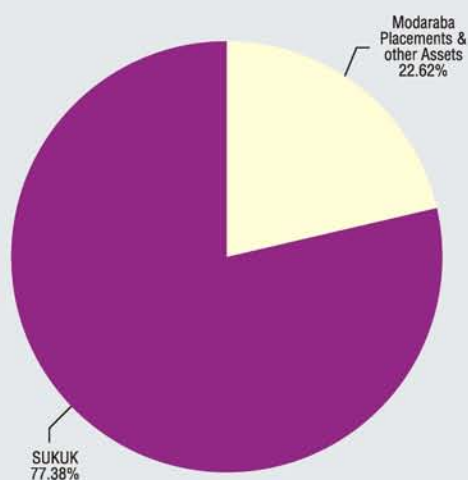
Unit Price (31/12/2009): Rs. 7.0523

December 2009

Investment Objective	Performance					
	Performance (%)*	Oct - Dec 2007	Jan - Dec 2008	Jan - Dec 2009	December 2009	Since Launch October 29, 2007
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.	<b>NAFA Islamic Income Fund</b>	1.30%	(7.90)%	(18.91)%	(1.26)%	(24.35)%
	<b>Benchmark</b>	0.91%	5.59%	7.19%	0.54%	14.21%
	* Represents Cumulative Return (Returns are net of management fee & all other expenses)					

General Information		Fund Manager's Commentary
Launch Date:	October 29, 2007	The Fund's unit price declined by 1.26% during the month. The return is low due to relatively constrained liquidity at the year-end of December and dismal performance of the cement sector due to the break down of cement cartel and consequent decline in cement prices. However, these cement sector Sukuks are in the process of restructuring expected to complete in next one to two months. Traditionally also, December has been a month of tight liquidity in domestic money market. 6-Months KIBOR has remained within a band of 12.39% to 12.47% during the month and closed the month at 12.43%
Fund Size:	Rs. 233 million	
Type:	Open-end – Shariah Compliant Income Fund	There has been a notable improvement in 1H-FY2010 macro-economic indicators of Pakistan, importantly the current account deficit. Year on Year (YoY) Core Inflation numbers have continued the downward trend observed throughout CY 2009, with Trimmed and Non-Food Non-Energy (NFNE) YoY core inflation, November numbers settling at 10.5% and 10.6% respectively. However, month on month CPI number was worrisome at 1.4%. One breather has been the recent release of IMF funds of USD 1.2 bln and the expected USD 1 bln from Japan under Friends of Pakistan pledges and USD 1.5 bln from USA. Pressure on fiscal deficit is likely to ease going forward as subsidies are eliminated gradually. Fiscal austerity and law and order situation will continue to set the pace of improvement in the general economic health.
Dealing:	Daily – Monday to Friday	
Settlement:	2-3 business days	We have improved the liquidity profile of the Fund considerably in the last few months as cash is around 22.6% of the whole portfolio. With expected improvement in liquidity and likely conclusion of restructuring developments in cement sector Sukuks, we expect gradual recovery of NAFA Islamic Income Fund's unit price.
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:	Irfan Malik, CFA	
Minimum Subscription:	Growth Unit: Rs. 10,000/- Income Unit: Rs. 100,000/-	

Asset Allocation (as on 31st December 2009)



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# NAFA Multi Asset Fund (NMF)

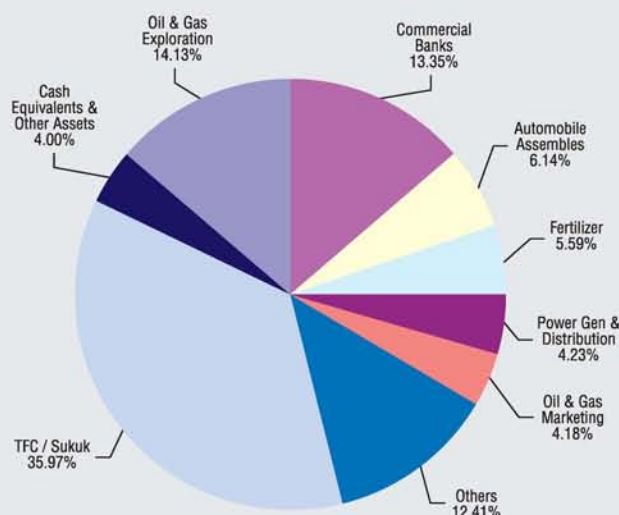
Unit Price (31/12/2009): Rs. 9.3023

December 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.	<b>Performance (%)*</b>	<b>Jan - Jun 2007</b>	<b>Jul - Jun 2007 - 08</b>	<b>Jul - Jun 2008 - 09</b>	<b>Jul - Dec 2009</b>	<b>December 2009</b>	<b>Since Launch January 22, 2007</b>
	<b>NAFA Multi Asset Fund</b>	<b>28.96%</b>	<b>5.12%</b>	<b>(22.56)%</b>	<b>9.60%</b>	<b>(2.33)%</b>	<b>15.05%</b>
	<b>Benchmark</b> (50% KSE-30 Index & 50% 1-month KIBOR)	<b>15.22%</b>	<b>(2.49)%</b>	<b>(20.83)%</b>	<b>18.17%</b>	<b>1.31%</b>	<b>5.10%</b>
*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. 1,159 million</p> <p>Type: Open-end – Balanced 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) decreased by 2.33% while the benchmark (50% KSE-30 index &amp; 50% 1-month KIBOR) increased by 1.31%. Thus your Fund under-performed the benchmark by 3.64% during the month. Since inception on January 22, 2007 your Fund has increased by 15.05%, while the benchmark has increased by 5.10%. Thus, to-date the out-performance of your Fund stands at 9.95%. Since January 2009 your Fund has increased by 29.56%.</p>
<p>Listing: Lahore Stock Exchange</p> <p>Custodian &amp; Trustee: Central Depository Company (CDC)</p> <p>Auditors: A. F. Ferguson &amp; Co. Chartered Accountants</p> <p>Benchmark: 50% KSE-30 Index &amp; 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 December 2009)



In the beginning of the month we were over-weight in equity and under-weight in the fixed income asset class. During the month, we reduced our allocation in equity below the market weight. However, expecting a short-term recovery in the Stock Market, we again over-weighted equities and under-weighted fixed income asset class.

The month started with subdued Stock Market performance and as a result, KSE-30 Index declined by around 2.5% during the 1st week. Investor sentiment was jittery due to concern over domestic political front linked to uncertainty over the controversial National Reconciliation Ordinance (NRO) issue. The apex court's decision on NRO, receipt of 4th Tranche of US \$ 1.2 billion, successful progress on the military operation in the northern areas, and consensus among provinces over NFC award helped improve investor confidence.

Going forward, inflation remains a key concern. Key triggers for the Stock Market are improvement in the political situation, foreign portfolio inflows, and improvement in the law and order situation.

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# NAFA Islamic Multi Asset Fund (NIMF)

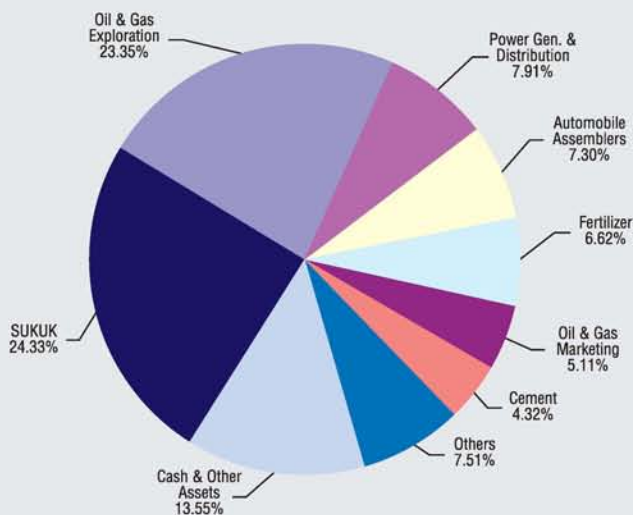
Unit Price (31/12/2009): Rs. 9.3246

December 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 (%)*	Oct - Dec 2007	Oct - Jun 2007 - 08	Jul - Jun 2008 - 09	Jul - Dec 2009	December 2009	Since Launch October 29, 2007
	<b>NAFA Islamic Multi Asset Fund</b>	<b>(2.64)%</b>	<b>(4.64)%</b>	<b>(10.09)%</b>	<b>8.76%</b>	<b>(4.72)%</b>	<b>(6.75)%</b>
	*Returns are net of management fee & all other expenses						

General Information	Fund Manager's Commentary
<b>Launch Date:</b> October 29, 2007 <b>Fund Size:</b> Rs. 502 million <b>Type:</b> Shariah Compliant - Open-end Balanced Fund <b>Dealing:</b> Daily - Monday to Friday <b>Settlement:</b> 2-3 business days <b>Load:</b> Front end -3%, Back end-0% <b>Management Fee:</b> 3% per annum	<p>During the month of December 2009, Net Asset Value (NAV) of NAFA Islamic Multi Asset Fund (NIMF) decreased by 4.72%, whereas the benchmark increased by 1.47%, thus an under-performance of 6.19% was recorded. Since January 2009 your Fund has increased by 46.39%</p> <p>Key factor responsible for the under performance of the Fund during the month was trading of sukuk at lower prices due to tight liquidity situation. We are expecting that as the liquidity situation improves the prices of sukuk will recover going forward. Moreover, our holdings in automobile sector grossly underperformed the market during the month. These shares out-performed the market over the last few months, but not in December. In our view, these stocks will perform well due to their strong fundamentals and attractive valuations.</p> <p>NIMF is a balanced fund and market weight implies 50% weight in equity and 50% in fixed income asset class. In the beginning of the month we were over-weight in equity and under-weight in the fixed income asset class. During the month, due to uncertain stock market trend we reduced our allocation in equity below the market weight. However, in latter half of the month, expecting a short-term recovery in the Stock Market we again over-weighted equities and under-weighted fixed income asset class.</p>
<b>Listing:</b> Lahore Stock Exchange <b>Custodian &amp; Trustee:</b> Central Depository Company (CDC) <b>Auditors:</b> A. F. Ferguson & Co. Chartered Accountants <b>Benchmark:</b> 50% KMI - 30 Index & 50% average 1-month profit rate of Islamic banks.	
<b>Fund Manager:</b> Sajjad Anwar, CFA <b>Minimum Subscription:</b> Growth Unit: Rs. 10,000/- Income Unit: Rs. 100,000/-	

Asset Allocation (as on 31st December 2009)



The Stock Market remained subdued during the 1st week of December. Concern over domestic political front linked to uncertainty over the controversial National Reconciliation Ordinance (NRO) issue kept the investors on the sideline. Investor confidence improved after the apex court's decision on NRO, receipt of 4th Tranche of US \$ 1.2 billion, and consensus among provinces over NFC award during the latter half of the month. Interest of the foreign funds in the Stock Market remained minimal during the outgoing month.

Going forward, inflation remains a key concern. Key triggers for the Stock Market are improvement in the political situation, foreign portfolio inflows, improvement in the law and order situation and success of the military operation in the northern regions.

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



National Fullerton  
Asset Management Limited

# NAFA Stock Fund (NSF)

Unit Price (31/12/2009): Rs. 7.2080

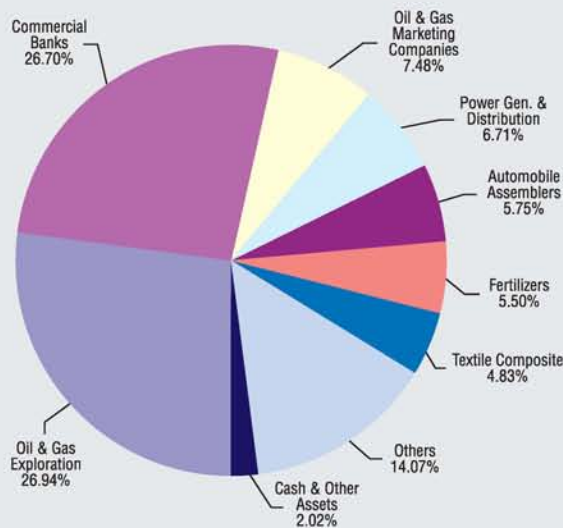
December 2009

Investment Objective	Performance						
	Performance (%)*	Jan - Jun 2007	Jul - Jun 2007 - 08	Jul - Jun 2008 - 09	Jul - Dec 2009	December 2009	Since Launch January 22, 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.	<b>NAFA Stock Fund</b>	<b>43.47%</b>	<b>(3.18)%</b>	<b>(45.63)%</b>	<b>18.78%</b>	<b>(0.11)%</b>	<b>(10.30)%</b>
	<b>Benchmark</b>	<b>26.89%</b>	<b>(15.70)%</b>	<b>(47.15)%</b>	<b>30.10%</b>	<b>1.48%</b>	<b>(26.45)%</b>
	*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. 1,327 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 1.48%, whereas NAFA Stock Fund's (NSF) Net Asset Value (NAV) decreased by 0.11%, thus an under-performance of 1.59% was recorded. Since inception on January 22, 2007 the NAV of NSF has declined by 10.30% and the benchmark has declined by 26.45%, thus to date out-performance is 16.15%. Since January 2009 your Fund has increased by 35.46%.</p>
<p>Listing: Lahore Stock Exchange</p> <p>Custodian &amp; Trustee: Central Depository Company (CDC)</p> <p>Auditors: A. F. Ferguson &amp; Co. Chartered Accountants</p> <p>Benchmark: KSE-30 Index</p> <p>Fund Manager: Sajjad Anwar, CFA</p> <p>Minimum Subscription: Growth Unit: Rs. 10,000/- Income Unit: Rs. 100,000/-</p>	

Key factor for under-performance of the Fund versus the benchmark during the month was due to the under-performance of our holdings in the automobile sector. These stocks had outperformed the benchmark in the preceding three months and are expected to perform well going forward as well on the back of sanguine fundamentals and attractive valuations. During the month, the exposure of NSF in energy exploration, OMC's, banking and fertilizer sectors performed largely in line with the market. At the start of the month NSF was 96.00% invested in equities. In the initial period of the month, we reduced our weight in equities in line with the uncertain stock market trend. However, during the latter part of the month we increased our weight as investor confidence improved. At the end of the month NSF was 97.98% invested in equities.

Asset Allocation (as on 31st December 2009)



During the first fortnight of December the market remained sideways and lackluster and was overshadowed by political uncertainties, the dicey law & order situation as well lack of liquidity. Activity by foreign funds was minimal. Net foreign portfolio inflows during December merely stood at US\$ 4.2 million compared to US\$ 12.8 million in November. The Market's Average Daily Traded Value further declined to PKR 5.2 billion against PKR 6.7 billion during November. Investor sentiment and market volumes improved in the second fortnight of December following development of consensus amongst the provinces over the National Finance Commission (NFC) Award, the Supreme Court's decision to declare the National Reconciliation Ordinance (NRO) null and void and receipt of the fourth IMF tranche of US\$ 1.2 billion.

The market remains fundamentally attractive. Positive triggers are successes on the military operation, improvement in liquidity situation and prospects of higher earnings in the upcoming results season. Nonetheless, the future direction of inflation and interest rates is critical. NSF is invested in blue chip stocks that are expected to outperform the benchmark.

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National Fullerton  
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*Your investments & NAFA grow together*



**Joint - Venture Partners**

Management Quality Rating AM2-  
(Good Quality Management)