

NAFA Funds

Monthly Report (February 2009)



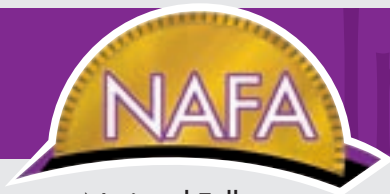
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Investment Outlook

Dr. Amjad Waheed, CFA
Chief Executive Officer

Liquidity is back in the Economy

The liquidity crunch during the second half of 2008, which was one of the worst that we have experienced in Pakistan, is now history. This is good news for different asset classes such as the TFCs, stock market and real estate. We have already seen a gradual recovery in the values of these asset classes and this trend is expected to intensify further over the next 6 months.

The improvement of liquidity in the system is a result of various factors. First, Pakistan's trade deficit has dropped from US\$ 2.3 billion in October 2008 to US\$ 411 million in January 2009. This means less rupees are being converted into dollars and leaving the system. Second, foreign remittances have increased considerably, with official remittances at US\$ 637 million in January, 2009. These higher remittances are driven by global recession, which has persuaded Pakistanis to transfer their funds back home in search of safety. Third, higher foreign exchange reserves and a stable foreign exchange rate is encouraging Pakistanis to invest at home. Fourth, a significant decline in inflation and expectations of further decline over the next few months is giving confidence to investors. Lastly, Foreign Direct Investment in the first seven months of this year at US\$ 2.59 billion is slightly higher as compared to the corresponding period last year, despite the global recession. The liquidity is further expected to improve as an additional US\$ 3 billion is expected from international financial institutions and the United States (on account of arrears) till June-end.

The impact of this improved liquidity is that interest rates have dropped substantially and bonds / TFCs prices have risen sharply over the last couple of months. This trend is expected to continue in the coming months as well. Several economic houses are projecting inflation (CPI) to drop by 500 basis points, and the discount rate by 300-400 basis points from now till July, 2009.

NAFA cash / income funds have substantial holdings in TFCs. The value of these TFCs dropped significantly in the fourth quarter of CY 2008 due to the liquidity crunch. Consequently, SECP issued a Circular in November 2008 instructing all AMCs to discount the value of TFCs in their funds. This resulted in a drop in the value of income funds in the market. Over the last couple of months, there has been continuous improvement in the value of these TFCs, and as a result, the return on NAFA cash / income funds is improving. NAFA Cash Fund (NCF) dropped by about 7.3% in value in November, 2008. However, since then the return on NCF has improved and has touched 18.5% (annualized) in February, 2009. NCF has a cushion / upside potential of around 8%-9%. This is in addition to the regular income in NCF, which is around 14% annualized at present (net of all expenses). It is expected that as liquidity further improves in the system, and the value of TFCs held in the funds improve, investors will recoup some or all of their November losses in the coming months.

NAFA Cash Fund – TFC Portfolio

Rating	% Net Asset Value (NAV) of the Fund
AA+ to AA-	50.6%
A+ to A-	15.8%
BBB+ to BB-	4.4%
D	1.1%
Aggregate	71.9%

Cushion / Upside Potential in NAFA Cash Fund

	Rupees (Millions)	% of NAV
Difference between Market Price and Par Value of TFCs	545.0	6.6%
Provisioning made according to SECP Circular 1	82.0	1.0%
Excess Provisioning made	137.2	1.7%
Total	764.2	9.3%

* Total Fund Size is Rs 8.27 Billion



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NAFA Cash Fund (NCF)

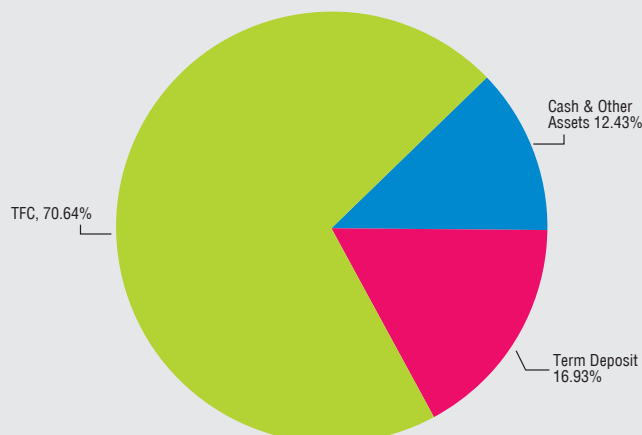
Unit Price (28/02/2009): Rs. 9.8301

February 2009

Investment Objective	Performance					
	Performance (%)	Jan - Jun 2008*	Jul - Dec 2008**	Jan 2008*	Feb 2009*	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%	(1.80)%	14.87%	18.47%	24.85%
	Benchmark	11.20%	7.17%	14.37%	13.32%	35.61%
	* 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	NAFA Cash Fund (NCF) earned an annualized return of 18.47% during the month of February. The return earned during the month is 3.60% higher than the return earned during the last month and 5.15% better than the benchmark return.
Fund Size:	Rs. 8,268 million	
Type:	Open-end – Fixed Income Fund	There has been a significant improvement in liquidity condition in the money market, which was obvious from Rs. 362 billion of bids in the last Treasury Bill auction against target of Rs.120 billion. Yield of 1-year Government Bond has decreased by approximately 150 basis points in the last one week, due to the prevailing excess liquidity.
Dealing:	Daily - Monday to Friday	
Settlement:	2-3 business days	
Load:	No entry or exit load	
Management Fee:	1.5% per annum	The 6-month KIBOR, after witnessing a rising trend from May, 2008 onward, has dropped substantially, falling by 100 basis points in the last three days of February.
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	As on February 28, 2009 NAFA Cash Fund is holding approximately 71% of its Net Asset Value in the Term Finance Certificates, 17% in the Term Deposit Receipts and 12% in cash and other assets. The Government Securities are yielding 11% p.a to 14% p.a as against corporate Term Finance Certificates (TFCs) yielding 18% p.a to 22% p.a. As risk aversion is gradually declining, we expect this spread to narrow, resulting in a significant rise in the prices of TFCs. NAFA Cash Fund, due to its substantial holding of Term Finance Certificates, is expected to be the beneficiary of this narrowing of spread. Investors of NCF are expected to gradually recoup their losses due to capital gains in the TFC portfolio in the coming months.
Minimum Subscription:	Growth Unit: Rs. 10,000/- Income Unit: Rs. 100,000/-	

Asset Allocation (on 28th February 2009)



We expect performance of NAFA Cash Fund to maintain its rising trend in the future months due to expected capital gains on its Term Finance Certificate portfolio.

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NAFA Multi Asset Fund (NMF)

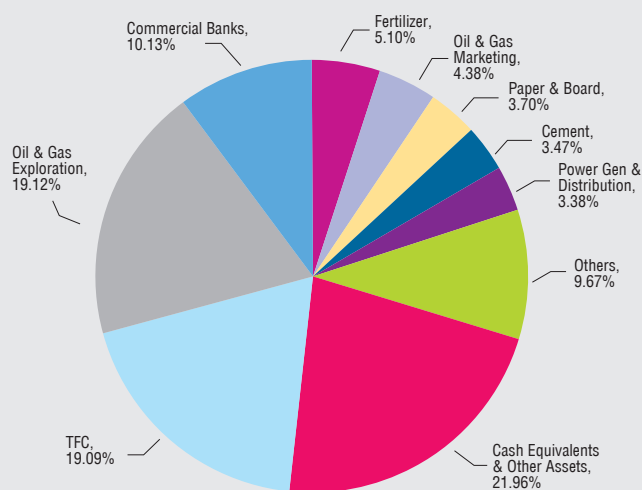
NAV Unit Price (28/02/2009): Rs. 7.4008

February 2009

Investment Objective	Performance					
	Return (%)*	Jan - Dec 2007	Jan - Jun 2008	Jul - Dec 2008	Feb 2009	Since Launch
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.	NAFA Multi Asset Fund	44.06%	-5.90%	-36.04%	5.88%	-9.68%
	Benchmark (50% KSE-30 Index & 50% 1-month KIBOR)	17.50%	-4.38%	-35.39%	7.22%	-23.61%
	*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. 1,603 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 5.88% while the benchmark (50% KSE-30 Index & 50% 1-month KIBOR) increased by 7.22%. Thus your Fund under-performed the benchmark by 1.34% during the month. Since inception on January 22, 2007, your Fund has declined by 9.68%, while the benchmark has declined by 23.61%. Thus, to date the out performance of your Fund stands at 13.93%. The under-performance is on account of some large cap index stocks jumping significantly during the month.</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 28th February 2009)



The fixed income market witnessed significant improvement in terms of liquidity and TFC price appreciation. The trend in T-Bill rates, inflation and PIBs clearly reflect that the discount rate is expected to be reduced. On the economic front also the only worrisome factor is slowdown in exports due to global economic situation. However, this slowdown can be mitigated by the inflow of additional aid from The World Bank, US and Europe.

Equity markets remained volatile with an upward trend. The political developments towards the end of the month brought a panic reaction, which might keep the market range bound for a while. However, we expect that this will be a temporary phenomenon and in the long run the market has greater upside potential as compared to downside risk.

We plan to maintain greater than policy allocation in equities till the market valuations remain attractive. Our fixed income portfolio has performed well and going forward we also expect the TFC prices to move up further. In the equity portion, we have focused more on stable stocks which are providing significantly higher dividend yields. We expect the Fund to perform well during 2009 due to our positive outlook on capital markets.

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NAFA Stock Fund (NSF)

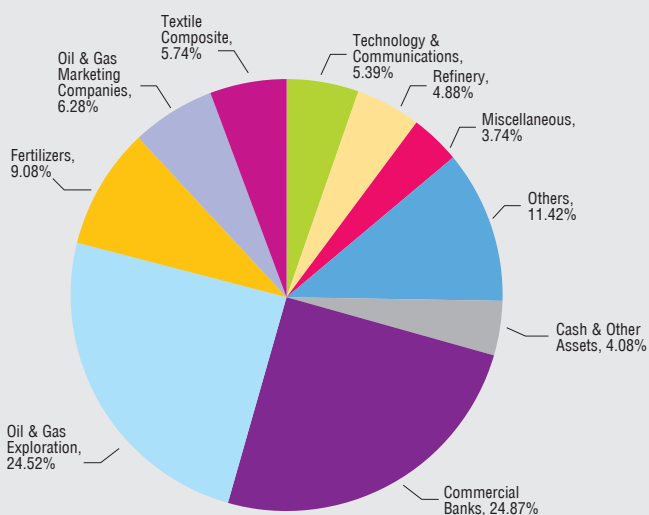
NAV Unit Price (28/02/2009): Rs. 5.0564

February 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.	Return (%)*	Jan - Dec 2007	Jan - Jun 2008	Jul - Dec 2008	Feb 2009	Since Launch
	NAFA Stock Fund	61.59%	-14.04%	-53.72%	6.13%	-37.07%
	Benchmark	24.82%	-14.30%	-61.71%	13.49%	-55.97%
* 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. 991 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 13.49%, whereas NAFA Stock Fund's (NSF) Net Asset Value (NAV) increased by 6.13%, thus an under-performance of 7.36% was recorded. Since inception on Jan. 22, 2007, the NAV of NSF has declined by 37.07% and the benchmark has declined by 55.97%, thus to date, the out-performance is 18.90%.</p>
<p>Listing: Lahore Stock Exchange</p> <p>Custodian & Trustee: Central Depository Company</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 28th February 2009)



The upward rally in the market remained limited to large cap and highly liquid stocks. The gradual building up of investor confidence is eventually expected to spill towards high growth medium cap stocks as well. NSF portfolio had higher concentration of growth stocks during the first half of the month and that is why it reported under-performance. However, towards the second half of the month we decreased portfolio concentration in medium cap stocks and tracking error against the benchmark. As a result, the under-performance actually reduced during the second half of the month.

We believe that after shedding 70% of its value from the peak, the market has reached extremely attractive levels, especially in large cap stocks. Therefore, an immediate upside of 23% was witnessed through a rally in large cap stocks. The macroeconomic scenario and liquidity in the financial sector suggest that the market has all the reasons to continue its upward trend. The political developments towards the end of the month may keep the market in a consolidation phase for a brief period.

We have a long-term positive view on the market from these levels due to higher dividend yields, attractive valuations, declining inflation and decreasing interest rates. We expect CY2009 to be a good year for equities and NSF. Even after a 23% increase in stock market, valuations are still attractive.

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NAFA Income Fund (NIF)

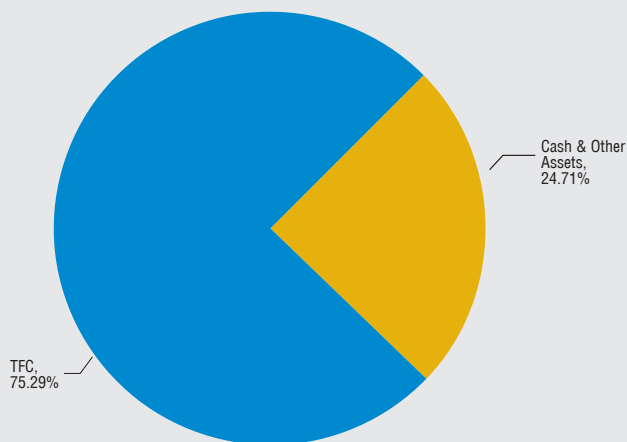
Unit Price (28/02/2009): Rs. 9.5178

February 2009

Investment Objective	Performance					
	Performance (%)	Apr - Jun 2008*	Jul - Dec 2008**	Jan 2008*	Feb 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)%	14.42%	2.26%	(0.25)%
	Benchmark	10.89%	6.54%	14.28%	13.64%	11.75%
	* 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. 1,068 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) during the month has earned an annualized return of 2.26%. The return on NIF is lower this month as one Term Finance Certificate (TFC) in the portfolio was sold in the market at a distress price. Based on the new Circular issued by SECP on Jan 6, 2009, all mutual funds value their TFCs at a price at which they trade in the market. Since a particular TFC was traded at a distress price, it affected the performance of the Fund in February. Ninety-five percent of NIF TFC portfolio is rated A+ and above and we expect TFCs to trade at higher prices due to improving liquidity. Investors are expected to experience good performance in the coming months.</p> <p>Liquidity situation in the money market has improved significantly, which is evident from falling rates of Government Securities as well as KIBOR. Excess liquidity was obvious in last Treasury Bill auction, where total participation was Rs. 362 billion as against target of Rs.120 billion. Rates on 1-year Government bond has further decreased by 50 to 75 basis points after 100 basis points reduction in cut off rates in the last auction.</p> <p>The 6-Month KIBOR, after touching a high of 15.70% has been declining. Only in the last three days of February it declined by 100 basis points. Six Month KIBOR has closed at 13.01% in February, approximately 209 basis points down from its closing in January. Decline in KIBOR is a direct result of market liquidity and declining cut-offs of Government Securities.</p> <p>As of 28th February, 2009 NAFA Income Fund is approximately 75% in Term Finance Certificates, which is going to be a major contributor to the returns in the coming months because of the expected capital gains.</p>

Asset Allocation (on 28th February 2009)



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NAFA Islamic Income Fund (NIIF)

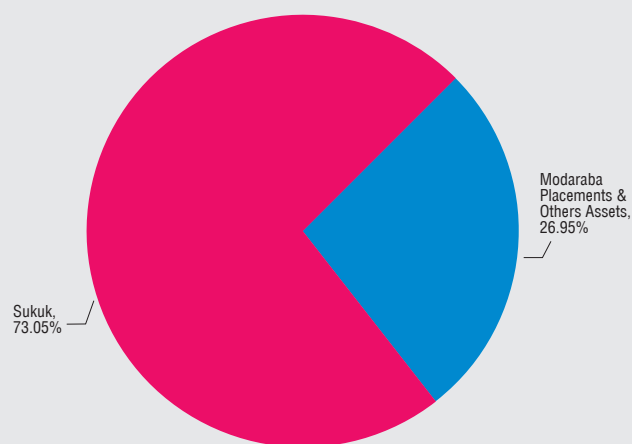
Unit Price (28/02/2009): Rs. 9.0696

February 2009

Investment Objective	Performance					
	Performance (%)	Jan - Jun 2008*	Jul - Dec 2008**	Jan 2008*	Feb 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.	NAFA Islamic Income Fund	8.62%	(11.62)%	38.77%	20.20%	(2.03)%
	Benchmark	5.31%	2.90%	7.74%	7.74%	5.79%
	* 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	NAFA Islamic Income Fund (NIIF) generated an annualized return of 20.20% during the month of February 2009. During the month under review, average annualized rate of return offered by the Islamic banks was calculated at 7.74%.
Fund Size:	Rs. 613 million	
Type:	Open-end – Fixed Income Fund	<p>With the improvement in liquidity conditions, we have witnessed improvement in trading activity in the sukuk market during the month of February 2009. Moreover, sukuks have also recovered some of their lost value. As on February 28, 2009, sukuk portfolio comprises around 73% of the Fund size as against around 86% during the previous month. Weighted average coupon rate on our sukuk portfolio is around 17% per annum and Yield to Maturity (return) is calculated at around 27% per annum. The decrease in the allocation in sukuk during the month is due to increase in the Fund size. Mudaraba placements & others comprise around 27% of the Fund size as against around 14% during the previous month.</p> <p>During the month of February, the interest rate continued to decline due to further improvement in the liquidity conditions in the market. For instance, 6-month KIBOR decreased by 2.09% during the month and closed the month at 13.01%. Furthermore, we have also seen sharp decline in PKRV rates and Treasury bill rates in recent auctions. We expect this declining trend in interest rate to continue due to easing off inflationary pressure in the coming months.</p> <p>In the coming months, we expect the return on our Fund to remain healthy due to: (i) further improvement in the prices of sukuk portfolio; (ii) attractive coupon rate offered by the sukuks; and (iii) attractive profit rates on our mudaraba placements.</p>
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 28th February 2009)



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NAFA Islamic Multi Asset Fund (NIMF)

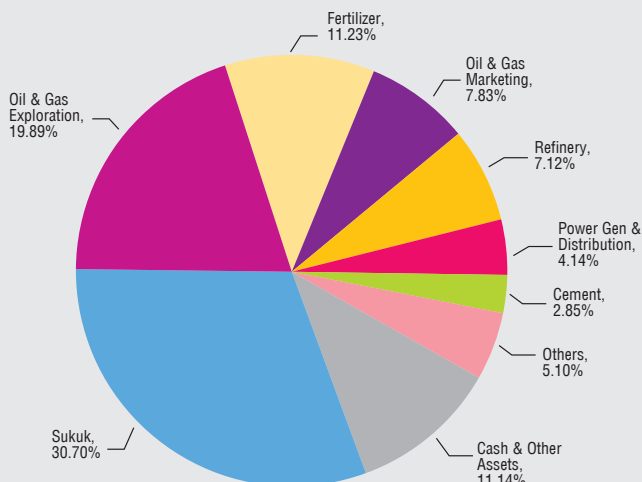
NAV Unit Price (28/02/2009): Rs. 7.0206

February 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.	Return (%)*	Nov - Dec 2007	Jan - Jun 2008	Jul - Dec 2008	Feb 2009	Since Launch
	NAFA Islamic Multi Asset Fund	-2.42%	-2.06%	-34.59%	6.92%	-29.79%
	Benchmark**	-	-	-	3.46%	-
*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. 443 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 under review, Net Asset Value (NAV) of NAFA Islamic Multi Asset Fund (NIMF) increased by 6.92%, whereas benchmark increased by 3.46%, thus an out-performance of 3.46% was recorded.
Listing: Lahore Stock Exchange Trustee: Central Depository Company 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/-	Stock market remained volatile during the month and ended the month on a positive note despite negative news on the political front. Trading volumes further improved during the month showing revival of buying interest among domestic investors.
	Macroeconomic indicators are showing further improvement. Headline inflation numbers continued downward trend during the month of January 2009 and are expected to decline further going forward. Exchange rate has also stabilized around PKR 80/ US \$. Current account deficit decreased by 25% during the month of January 2009 as against the previous month due to improvement in trade deficit and increase in home remittances. Interest rate also showed sharp decline due to improvement in liquidity conditions in the market.

Asset Allocation (on 28th February 2009)



During the month, we remained overweight in equity and underweight in fixed income asset classes. NIMF is a balanced fund and market weight implies a 50% weight in equity and 50% weight in fixed income. The combination of better stock selection, overweight in equity and a high yield on our sukuk portfolio contributed to the out-performance against the benchmark and peer group during the outgoing month.

Amid uncertainty on the political front, towards the end of the month, we decreased our exposure to equity to around 58%. Our strategy is to remain overweight in equity in the near future. Current stock prices are very attractive considering the earnings potential of the companies especially those in the defensive sectors like Oil & Gas, Fertilizer & Power. Going forward, we expect the Fund to perform well as we expect significant improvement in sukuku' and stocks' prices during 2009.

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